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No. 91-_____

IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

RAYMOND BOYD,

Petitioner,

—v.—

SCHILDKRAUT GIFTWARE CORPORATION and
D&E TRADING CORPORATION,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. May the right to trial by jury, once properly demanded, subsequently be lost other than in accordance with the dictates of Rules 38(d) and 39(a), Fed. R. Civ. P.?

2. If so, should such an exception reach a situation such as presented here, where, *inter alia*: (a) jury trial of "all issues so triable" had been demanded; (b) patent infringement, a classic jury issue, had not been among the issues set for trial in the pretrial order or referred for an evidentiary hearing; (c) an objection on grounds of jury trial was raised immediately upon a Magistrate's mid-hearing announcement that the issue of patent infringement would be heard; and (d) the objection was maintained in a post-hearing brief prior to decision, in objections to the decision submitted to the District Judge and on appeal?

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner, Raymond Boyd, respectfully prays that a writ of certiorari issue to review the judgment dated and entered in this case on June 10, 1991 by the United States Court of Appeals for the Second Circuit.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Second Circuit accompanying the judgment dated June 10, 1991 and entered on that date is reported at 936 F.2d 76 and reprinted at 1a.[1]

The opinion of the United States District Court for the Southern District of New York, filed July 7, 1988, was not reported and is reprinted at 114a.

The report of the Magistrate to the District Judge following an evidentiary hearing, dated September 17, 1985, is reprinted at 90a.

JURISDICTION

The judgment of the Court of Appeals sought to be reviewed was dated and entered June 10, 1991. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(l).

STATUTES AND RULES INVOLVED

Fed. R. Civ. P. 38(d):

> . . . A demand for trial by jury made as herein provided may not be withdrawn without the consent of the parties.

---

[1] References to the Appendix are in the form "___a".

Fed. R. Civ. P. 39(a):

> When trial by jury has been demanded as provided in Rule 38, the action shall be designated upon the docket as a jury action. The trial of all issues so demanded shall be by jury, unless (1) the parties or their attorneys of record, by written stipulation filed with the court or by an oral stipulation made in open court and entered in the record, consent to trial by the court sitting without a jury or (2) the court upon motion or of its own initiative finds that a right of trial by jury of some or all of those issues does not exist under the Constitution or statutes of the United States.

STATEMENT OF THE CASE

The District Court had jurisdiction of this diversity case by virtue of 28 U.S.C. § 1332.

Boyd asserted contract and unjust enrichment claims for respondents' failure to pay Boyd royalty on millions of dollars in sales of a lighted ladies compact that he invented, developed and licensed to respondents. 133a. Both the original complaint, 142a, and amended complaint, 146a, contained the following jury demand:

JURY DEMAND

> Plaintiff hereby demands trial by jury of all issues herein so triable.

145a, 149a.

Boyd's contract and unjust enrichment claims survived a summary judgment motion, 19a, pretrial orders requiring submissions necessary for jury trial were entered, 14a, 16a, and a consent pretrial order for jury trial of Boyd's claims was entered. 43a. The consent pretrial order contained 19 pages of facts for jury trial, 45a-63a, and explicitly recognized that trial was to be to a jury, 83a. The issue of patent infringement was not in the pretrial order.

Prior to trial, the case was reassigned because of the death of the original District Judge. The new Judge, in the course of a status conference called to familiarize the court with the case, without notice and in the absence of any pending motion, disallowed Boyd's unjust enrichment claim, found material facts and ordered that Boyd settle the case or it would be referred to a Magistrate. 152a, 84a.

In a second status conference held after the parties failed to settle, the District Court announced its intent to refer the case to a Magistrate and plainly stated that it would not even consider certifying the case for appeal:

> MR. FRENCH: Could I ask you one question now? Would you be willing to certify this case? And I'm not indicating a desire at this time --
>
> THE COURT: I couldn't care less. This case will not go up to the Second Circuit until it is concluded. There is nothing in this case that would make it subject to a certification order, and I hardly find that in good faith you could even ask that when you don't know enough about the case [as new counsel] because you haven't been here.

> But if that's what you want to do, you do whatever you can do. But I am going to send it to the Magistrate --
>
> MR. FRENCH: It was purely for the sake of my analysis and guidance for my client, your Honor, and because it is common to --
>
> THE COURT: Have a good day.
>
> MR. FRENCH: Yes, your Honor.

152a.

The District Court had also stated that respondents would have to account for *all* the compacts sold and ordered that no issue would be tried involving whether or not the compacts sold by respondents infringed a patent Boyd had obtained. 151a, 84a.

In the midst of an evidentiary hearing before a Magistrate, the Magistrate announced a decision to try the issue of patent infringement, an issue *not* in the pretrial order and an issue specifically reserved from the hearing by the District Judge. Boyd, prior to trial of the issue and immediately upon the announcement, objected on the grounds that such trial would contravene the District Court's order and that patent infringement was a jury issue:

> MR. FRENCH: . . . If, in fact, non-infringement is being tried here, basically what we are trying, then the plaintiffs must object on the grounds that that is a jury issue.
>
> THE COURT: I stated on the record this is not an infringement case. I am simply saying by

> coincidence, the issue of infringement is part of the record in this case.
>
> Are you objecting on the ground that you are being deprived of a jury trial?
>
> If that's the case, you can make that point on appeal from my report. You can make it to Judge Lowe. You can bring a Writ of Mandamus to stop me from proceeding. You can do whatever you like. I have my rules.
>
> MR. FRENCH: I understand that.

154-55a.

Following the hearing before the Magistrate, and prior to any decision thereon, Boyd again objected to nonjury trial of the infringement issue:

> Infringement issues are entirely outside of the pretrial order in this case. Thus the pretrial order, by its silence, contemplates no infringement issues at trial. The court order precluding issues of claim construction in this proceeding explicitly bars infringement from being considered in this accounting. Finally, plaintiff has demanded a jury trial herein as to all issues so triable, and patent infringement is a classic jury issue replete with subsidiary factual issues. For each and all of the foregoing reasons, plaintiff submits that the subject matter referenced to the court herein could not have included infringement issues.

157a.

Following the Magistrate's submission of a report to the court, which was silent as to Boyd's objection and in which the infringement issue was decided, Boyd objected to the District Court that trial of that issue by the Magistrate had been improper:

> . . . [P]laintiff points out that for compacts literally within the claims of U.S. Patent 4,126,145 and/or to the alternative extent that such compacts fall within the broader patent scope afforded by the doctrine of equivalents, the analysis is identical for both tort and contract theories. Except to the partial extent that defendants have admitted the foregoing, however, these issues were not before the Magistrate because of plaintiff has preserved his demand for a jury trial on them. (See plaintiff's Brief pp. I-22 through I-23).

159a.

The District Court decision, which was also silent as to Boyd's objection, dismissed the complaint. 128a.

On its disposition of an appeal including this issue, the Court of Appeals stated:

> Nor was there a denial of a jury trial by reason of the reference of the royalty computation issues to the Magistrate Judge. When Judge Lowe proposed referring the royalty calculations to a Magistrate Judge, she inquired of Boyd's counsel whether there was objection, and was told only that counsel would have to discuss the matter with his client. No

> objection was raised until the proceedings before the Magistrate Judge were well along.[2] Even then, Boyd's counsel sought only to claim a jury trial on infringement as an issue purportedly distinct from the obligation to make royalty payments. Since the claim was for royalty payments, it was too late, after the royalty issues had been referred to the Magistrate Judge, to obtain a jury on the subsidiary issue of infringement, on which rested the royalty claim for the wedge switch compacts.

Boyd v. Schildkraut Giftware Corp., 936 F.2d 76, 80 (2d Cir. 1991) and 9a.

ARGUMENT

The Court should consider this case because an important question of federal law relating to the standards of forfeiture of a properly demanded jury trial vis-a-vis Rules 38(d) and 39(a), Fed. R. Civ. P., has not been settled by the Court but should be; because the Courts of Appeals have been deciding an important federal question relating to waiver of jury trial in a manner at odds with the literal requirements of Rules 38(d) and 39(d) and seemingly at odds with venerable and never overruled decisions of the Court; and because the Second Circuit decision here involved conflicts with prior decisions of the Second Circuit itself and those of other Courts of Appeals.

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[2] The objection was raised immediately upon the magistrate's announcement that he would hear evidence on the issue.

Rules 38(d) and 39(a) together provide that once a jury trial has been properly demanded, it may not be abrogated without the consent of the parties unless the District Court finds that there is no right to trial by jury under the Constitution or federal statute, and that such consent must be manifested by either a filed written stipulation or an oral stipulation in open court entered in the record. In this case there was no pertinent court finding and no written or oral stipulation.

This Court has often recognized the importance of the right to jury trial and stated its intent to zealously protect that right.[3] When waiver of jury trial was controlled by statute, *e.g.*, 28 U.S.C. former § 773 and predecessors, the Court required literal compliance with the formal statutory requirements for the waiver of right to trial by jury:

> The right of trial by jury in the courts of the United States is expressly secured by the Seventh Article of Amendment to the Constitution, and Congress has, by statute, provided for the trial of issues of fact in civil cases by the court without the intervention of a jury, only when the parties waive their right to a jury by a stipulation in writing. R.S., 648, 649.

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[3] *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 501 (1959) and *Dimick v. Schiedt*, 293 U.S. 474, 486 (1935)("any seeming curtailment of the right to a jury trial should be scrutinized with the utmost care"); *Lyon v. Mutual Benefit Health & Accident Association*, 305 U.S. 484, 492 (1939) ("essential that the right to trial by jury be scrupulously safeguarded"); *Baylis v. Travelers' Insurance Co.*, 113 U.S. 316, 321 (1885)("This constitutional right [to trial by jury] this court has always guarded with jealousy").

> This constitutional right this court has always guarded with jealousy.[4]

With the adoption of the Federal Rules of Civil Procedure, Rules 38(d) and 39(a) incorporated prior statutory provisions governing waiver of a properly demanded jury trial.[5] The Court apparently has not addressed the substance of Rule 39(a) or the requirements for waiver of a properly demanded jury trial since adoption of the Federal Rules.

Many of the Courts of Appeals have held that waiver of jury trial may be found without the Rule 39(a) requirements being met where the party that demanded the jury fully participated in a nonjury proceeding without raising the jury trial issue until presented with an unfavorable decision,[6] apparently resting on two policies: (1) a general one that a Court of Appeals should not entertain on appeal issues not raised below; and (2) a specific one that a litigant should not

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[4] *Baylis v. Travelers' Insurance Co.*, 113 U.S. 316, 321 (1885); *see also Fleitas v. Cockrem*, 101 U.S. (11 Otto) 301 (1880) (record reference to written waiver of trial by jury conclusive that "proper agreement was made").

[5] Rule 39, Fed. R. Civ. P. advisory committee's note.

[6] *E.G., Cooper v. Loper*, 923 F.2d 1045, 1049 (3rd Cir. 1991); *White v. McGinnis*, 903 F.2d 699, 700 (9th Cir.), *cert. denied*, 112 L. Ed.2d 223 (1990); *Royal American Managers, Inc. v. IRC Holding Corp.*, 885 F.2d 1011, 1018 (2d Cir. 1989); *Lovelace v. Dall*, 820 F.2d 223, 227 (7th Cir. 1987); *Casperone v. Landmark Oil & Gas Corp.*, 819 F.2d 112, 114 (5th Cir. 1987); *United States v. 1966 Beechcraft Aircraft*, 777 F.2d 947, 950 (4th Cir. 1985); *Allen* v. *Barnes Hospital*, 721 F.2d 643, 644 (8th Cir. 1983); *Southland Reship, Inc. v. Flegel*, 534 F.2d 639, 644 (5th Cir. 1976); *National Family Insurance Co. v. Exchange National Bank of Chicago*, 474 F.2d 237, 241 (7th Cir.), *cert. denied*, 414 U.S. 825 (1973).

be allowed a second chance to prevail arising solely from a failure to apprise the District Court of a procedural error.[7] Neither policy is served in the instant case, where timely objections prior to hearing and prior to decision were made.

Apparently only one Court of Appeals decision has extended a non-Rule 39(a) waiver holding to a fact situation not commensurate with the two policies noted above. In *Sewell v. Jefferson County Fiscal Court*,[8] the Sixth Circuit held that an objection made at the commencement of trial but four months after an order assigning the case for bench trial came too late. But on substantially similar operative facts, the Second Circuit has held that there was no waiver of jury trial.[9]

In all other cases located in which a Court of Appeals considered the requirements for Rule 39(a) waiver, no waiver was found where an objection had been made prior to the trial court's disposition of issues subject to trial by jury, including two additional Second Circuit cases and one from the Third Circuit.[10]

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[7] *Lovelace, supra*, 820 F.2d at 228.

[8] 863 F.2d 461, 463 (6th Cir. 1988), *cert. denied*, 107 L. Ed.2d 42 (1989).

[9] *Gargiulo v. Delsole*, 769 F.2d 77, 78 (2d Cir. 1985)(objection made at commencement of trial but after notice that case calendared for bench trial); *see also Millner v. Norfolk & Western Railway Co.*, 643 F.2d 1005, 1011 (4th Cir. 1981)(no waiver *despite no objection* where party not on notice that jury trial issue would be adjudicated at hearing).

[10] *Rosen v. Dick*, 639 F.2d 82, 88 *et seq.* (2d Cir. 1980); *Heyman v. Kline*, 456 F.2d 123, 128-30 (2d Cir.), *cert. denied*, 409 U.S. 847 (1972); *Collins v. Government of Virgin Islands*, 366 F.2d 279, 281 *et seq.* (3d Cir. 1966), *cert. denied*, 386 U.S. 958 (1967).

I
THE COURT SHOULD CONSIDER AND SETTLE THE LAW GOVERNING WAIVER OF JURY TRIAL AND THE STANDARDS OF RULES 38(d) AND 39(a).

As indicated *supra*, the Court appears to have not visited the issue of what standards should govern waiver of a properly demanded jury trial since adoption of the Federal Rules in 1937. In the absence of guidance from the Court, the Courts of Appeals have come to mixed results, and the specific result in this case conflicts with the clear literal requirements of Rules 38(d) and 39(a), conflicts with other appellate decisions, including those of the Second Circuit, *and* relaxes the jury trial waiver standard to an unprecedented degree.

The general guidance the Court has provided would apparently not sanction any departure from the literal requirements of Rule 39(a).

This Court has said that courts "have no power to rewrite the Rules by judicial interpretations", *Harris v. Nelson*, 394 U.S. 286, 298 (1969), and that conventional principles of statutory construction must be employed and the literal language or the intended effect of the Rules looked to in ascertaining the purpose of the draftsman or the congressional understanding. *Id.*

The starting point for interpreting a statute is the language of the statute itself. *Hallstrom v. Tillamook County*, 493 U.S.____, 107 L. Ed.2d 237, 245 (1989); *Consumer Product Safety Commission v. GTE Sylvania, Inc.*, 447 U.S.

102, 108 (1980). Courts are not free to create exceptions where drafters have declined to do so; flexible or pragmatic constructions not in accord with statutory language are not to be readily embraced. *Hallstrom, supra*, 107 L. Ed.2d at 246. "'Absent a clearly expressed legislative intent to the contrary,' the words of the statute are conclusive." *Id.* at 247, quoting from *GTE Sylvania, supra; see Bethesda Hospital Association v. Bowen* , 485 U.S. 399, 403 (1988) ("The plain meaning of the statute decides the issue presented.").

As this Court has reflected,

> in the long run, experience teaches that strict adherence to the procedural requirements specified by the legislature is the best guarantee of evenhanded administration of the law.

Hallstrom, supra, 107 L. Ed.2d at 249; *Mohasco Corp.* v. *Silver*, 447 U.S. 807, 826 (1980). "As a general matter, courts should be loath to announce equitable exceptions to legislative requirements or prohibitions that are unqualified by the statutory text." *Guidry v. Sheet Metal Workers National Pension Fund*, 493 U.S. ____, 107 L. Ed.2d. 782, 795 (1990).

Indeed, when the context is waiver of the right to jury trial, a right the Court has traditionally and zealously protected, the literal requirements of Rule 39(a) should be especially adhered to:

> But, as the right of jury trial is fundamental, courts indulge every reasonable presumption against waiver.

Aetna Insurance Co. v. Kennedy, 301 U.S. 389, 393 (1937).

As noted *supra*, although there may be sound policy justifications for the majority non-Rule 39(a) waiver rule adopted by the Second, Third, Fourth, Fifth, Seventh, Eighth and Ninth Circuits, this majority rule, which would *not* have resulted in a waiver holding if applied in this case, is nevertheless at odds with the literal requirements of Rule 39(a) and the general teachings of the Court.[11]

II
ALTHOUGH THE COURT HAS NOT SUBSTANTIVELY CONSIDERED RULE 39(a), APPELLATE DECISIONS RELATING TO JURY TRIAL WAIVER DO NOT COMPORT WITH PRE-FEDERAL RULES DECISIONS OF THE COURT.

Prior to the adoption of the Federal Rules, when the requirements for waiver of the right to trial by jury were statutorily mandated, the Court appears to have required strict adherence to the literal wording of the statutes.

In *Baylis v. Travelers' Insurance Co.*, 113 U.S. 316 (1885), the Court viewed R.S. 648 and 649 as allowing

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[11] *See* the dissenting opinion in *White v. McGinnis*, 903 F.2d 699, 705 *et seq.* (9th Cir.), *cert. denied*, 112 L. Ed.2d 223 (1990). In adopting the majority rule in *White*, the Ninth Circuit overruled *Palmer v. United States*, 652 F.2d 893 (9th Cir. 1981), in which that court had required scrupulous adherence to the literal standards of Rule 39(a).

nonjury trial "only when the parties waive their right to a jury by a stipulation in writing." *Id.* at 321. In *Fleitas v. Cockrem*, 101 U.S. (11 Otto) 301 (1880), the Court found that a "proper agreement was made" as to a bench trial based upon the trial court's reference of record to a "jury having been waived in writing".

Thus to the extent this Court has addressed issues raised by this petition, it has done so in a manner suggesting disapproval of the non-Rule 39(a) jury trial waivers that the Courts of Appeals have been finding. Certainly the waiver found by the Second Circuit upon the specific facts of this case is entirely without support in this Court's precedents.

III
ASSUMING *ARGUENDO* THE ABSENCE OF ERROR IN ANY DEPARTURE FROM THE LITERAL WAIVER STANDARDS OF RULE 39(a), THE COURTS OF APPEALS DISAGREE AS TO THE REQUIREMENTS FOR A NON-RULE 39(a) WAIVER.

As shown *supra*, in the absence of guidance from this Court a majority of the Courts of Appeals have agreed that a non-Rule 39(a) based waiver of jury trial should be found where a party has properly demanded jury trial but has subsequently fully participated in a non-jury proceeding without objecting to the absence of a jury until having received an unfavorable decision.

However, the Sixth Circuit has further expanded the scope of non-Rule 39(a) waiver and found a waiver of jury trial in circumstances that unlikely would have been held to

be a waiver by the Courts of Appeals subscribing to the majority rule. In *Sewell v. Jefferson County Fiscal Court*, 863 F.2d 461 (6th Cir. 1988), *cert. denied*, 107 L. Ed.2d 42 (1989), there had been a proper jury trial demand by the plaintiff. On September 17, 1986, the District Court, without the consent of the parties, had ordered the case removed from the jury trial docket. Apparently unaware of the full thrust of the trial court's September order, which might at a quick reading have been interpreted as merely a continuance, and as to which the setting of the case for bench trial was apparently inadvertent, *id.* at 468 (dissenting opinion), the plaintiff's attorney at the commencement of trial on January 22, 1987 requested that a jury be summoned. The District Court, on the basis of the September order, concluded that jury trial had been waived and conducted a bench trial. *Id.* at 463. A three-judge panel, one member dissenting from the majority's holding as to jury trial waiver, *id.* at 468-69, affirmed, stating that the September order "constituted a 'sufficient entry in the record to satisfy the requirements of Fed. R. Civ. P. 39(a)'", *id.* at 465.

There is no Court of Appeals opinion known to petitioner upholding a waiver of jury trial in circumstances as presented here and there are appellate decisions holding no waiver under analogous facts.

In *Millner v. Norfolk & Western Railway Co.*, 643 F.2d 1005 (4th Cir. 1981), a case closely approximating the facts of the instant case, the plaintiff properly demanded a jury trial and then participated in an evidentiary hearing conducted by the District Court, in the course of which the District Court adjudicated an issue as to which the plaintiff

was entitled to trial by jury. In finding no waiver for lack of compliance with the requirements of Rules 38(d) and 39(a), *id.* at 1011, the Court of Appeals also observed:

> Nothing about the procedure employed was calculated to suggest to Millner that the N&W's affirmative defense to his claim was to be adjudicated by the appropriate trier of fact in a plenary evidentiary hearing. . . . Under the circumstances, Millner could not fairly be charged with notice that dispositive issues of fact as to which he had demanded jury trial were to be adjudicated by the court.

Id. at 1011 n. 1. Here Boyd was not only *not* on notice that infringement would be determined by the Magistrate, but the issue was wholly absent from the pretrial order and the District Court had previously ordered that infringement would not be an issue in the hearing. Moreover, apparently the *Millner* plaintiff *did not object* to trial of the relevant issue at the hearing, whereas Boyd objected immediately upon the Magistrate's mid-hearing announcement that the infringement issue would be treated.

In *Collins v. Government of Virgin Islands*, 366 F.2d 279 (3d Cir. 1966), *cert. denied*, 386 U.S. 958 (1967), the Third Circuit stated:

> Once a jury trial has been demanded, trial must be had by jury unless there is a "written stipulation" or "oral stipulation made in open court" consenting "to trial by the court sitting without a jury". Rule 39(a), Federal Rules of Civil Procedure. See also, Rule

> 38(d), Federal Rules of Civil Procedure. Here there was no such stipulation by Government.

Id. at 286. In recently subscribing to the majority non-Rule 39(a) waiver rule, the Third Circuit made no mention of *Collins, Cooper v. Loper*, 923 F.2d 1045, 1048-49 (3d Cir. 1991), thereby creating an intra-Circuit conflict. In any event, the Third Circuit likely would have found no waiver upon the facts presented here, since neither *Collins* nor *Cooper* would expand waiver to reach the instant facts.

IV
THE SECOND CIRCUIT'S HOLDING IN THIS CASE IS IN SUBSTANTIAL CONFLICT WITH ITS OWN PRECEDENTS.

The serious challenge to the right of trial by jury posed by the Courts of Appeals having dispensed with the literal requirements of Rules 38(d) and 39(a) in the absence of any guiding restraint from this Court on such departures is nowhere more evident than within the Second Circuit itself.

In *DeGioia v. United States Lines Co.*, 304 F.2d 421 (2d Cir. 1962), the Second Circuit stated:

> The principle of waiver by failure to make timely claim, F.R. 38(d), is limited by the explicit provision of F.R. 39(a), that once a demand for jury trial has been properly made it can be waived only by an oral stipulation made in open court and entered in the record, or by written stipulation.

Id. at 424 n. 1.

In *Heyman v. Kline*, 456 F.2d 123 (2d Cir.), *cert. denied*, 409 U.S. 847 (1972), Kline had arguably consented to a bench trial prior to answering and then demanded a jury trial in his answer. *Id.* at 128. In reversing for improper denial of jury trial, the Second Circuit stated:

> In any event, we hold that short of a party's consent, or authorization of counsel to consent, there could be no effective waiver except by operation of Rule 38, F.R.Civ.P.

Id. at 128 n. 5. After quoting from this Court's *Dimick* and *Aetna Insurance* decisions as to the importance of the right to jury trial and the necessity for courts to "indulge every reasonable presumption against [jury trial] waiver", the Second Circuit stated that the

> Federal Rules of Civil Procedure have worked out a careful scheme by which defendants may waive their right to jury trial

and that the

> right to jury trial is too important and the usual procedure for waiver of the right too clearly set out by the Civil Rules for courts to find a knowing and voluntary relinquishment of the right in a doubtful situation.

Id. at 129 (citations omitted).

In *Rosen v. Dick*, 639 F.2d 82 (2d Cir. 1980), in responding to questions certified for interlocutory appeal, the

Second Circuit, in reviewing a record "peppered with equivocal statements made by the parties and the Judge about how the case would eventually be tried", *id.* at 86, and in holding there was no jury trial waiver, quoted Rules 38(d) and 39(a) and then stated:

> None of the procedures, safeguards against inadvertent retraction of the jury demand, has been followed.
>
> * * *
>
> [W]e hold that a retraction must be based upon the express acts required by Rules 38(d) and 39(a), not upon the uncertain meanings implied by the lengthy, complicated record in this case.

Id. at 90, 90 n. 11.

In *Gargiulo v. Delsole*, 769 F.2d 77 (2d Cir. 1985), a proper jury demand had been made, but prior to trial the District Court issued a notice indicating that the case had been set for bench trial. At the calling of the case for trial, both parties requested a jury; the District Court denied the requests and tried the case without a jury. *Id.* at 78. In vacating the judgment and remanding for jury trial, the Second Circuit recognized that the right to a jury trial is "fundamental" and that "waiver is not lightly to be inferred", quoted Rule 39(a) and then stated, referring to the Rule:

> There was no such written or oral stipulation on the record in the present case. Indeed, the district

> court noted the vigor with which defense counsel requested a jury trial and the timeliness of plaintiffs' counsel's exception to the court's ruling. Plaintiffs were not required to walk out of the courtroom rather than to proceed with the bench trial in order to preserve their right to claim on appeal that they had been denied the jury trial that had been demanded.

Id. at 79.

In *Royal American Managers, Inc. v. IRC Holding Corp.*, 885 F.2d 1011 (2d Cir. 1989), the Second Circuit adopted the majority non-Rule 39(a) waiver rule. *Id.* at 1018. But in *Royal American*, the jury trial argument was "presented for the first time on appeal", the appellant "did not object at the trial when the district judge stated his intention to determine the claim", and the Court of Appeals specifically stated that

> a party should not be held, by reason of its participation in the nonjury proceedings, to have waived the jury trial right unless the party was "on notice that the trial court was planning to adjudicate the dispositive issues of fact."

Id. The Second Circuit distinguished its *Gargiulo* and *De Gioia* decisions on the ground that in those cases "the parties *did* object in the district court to the court's failure to conduct the trial by jury", *id.* (emphasis in original), and stated that it

> was no secret that the district court was going to determine the issues germane to the section 12(2)

> claim; the court made quite clear its intention on this matter.

Id. at 1019.

In this case there was *no notice* that the issue of patent infringement would be determined by the Magistrate. Boyd *did* object immediately upon the Magistrate's announcement that he would determine the issue. Boyd objected again in his post-hearing brief long prior to decision, and again in his objections to the Magistrate's decision.

Thus the dangers to the right to jury trial inherent in deviations from the explicit Rule 39(a) standards are markedly evident in the Second Circuit's ever more relaxed waiver requirements as represented by the progression from the strict adherence to Rule 39(a) requirements as specifically set out in *DeGioia*, *Rosen* and *Gargiulo* and alluded to in *Heyman*, to the adoption of the majority rule in *Royal American* (without overruling prior cases), to whatever rule might be gleaned from its decision in this case.

CONCLUSION

For the reasons stated, this Petition for Certiorari should be granted.

Respectfully submitted,

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Attorneys for Petitioner
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September 9, 1991

APPENDIX

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 919—August Term 1990

Argued: February 6, 1991 Decided: June 10, 1991

Docket No. 88-7761

RAYMOND BOYD,

Plaintiff-Appellant,

—v.—

SCHILDKRAUT GIFTWARE CORPORATION and D & E TRADING CORPORATION,

Defendants-Appellees.

Before:

TIMBERS, NEWMAN, and ALTIMARI,

Circuit Judges.

Appeal from the July 29, 1988, judgment of the District Court for the Southern District of New York (Mary Johnson Lowe, Judge) dismissing plaintiff's claim for royalties claimed to be due under a 1978 patent license.

Affirmed.

PHILIP M. FRENCH, Stamford, Conn. (Alfred H. Hemingway, Jr., New York, N.Y., on the brief), *for plaintiff-appellant.*

MARVIN E. FRANKEL, New York, N.Y. (Terry D. Weissman, Kramer, Levin, Nessen, Kamin & Frankel, New York, N.Y., on the brief), *for defendants-appellees.*

JON O. NEWMAN, *Circuit Judge*:

Of the many issues on this appeal in a patent licensing case, the only one of substance is determination of the circumstances under which the mismarking of a product with an inapplicable patent number will estop the user from denying that his product uses the patent. Raymond Boyd appeals from the July 29, 1988, judgment of the District Court for the Southern District of New York (Mary Johnson Lowe, Judge) dismissing his claim for royalties claimed to be due under a 1978 patent license. We conclude that, under the circumstances of this case, the rejection of marking estoppel was correct, and we therefore affirm.

Facts

Boyd invented a switch that turns on the lights inside a cosmetic compact when the cover of the compact is opened. The switch operates by means of a cam that rotates when the cover is opened, causing completion of an electrical circuit. Though Boyd originally applied for a patent covering any switch that automatically turns a

compact's lights on and off, he was obliged, by virtue of the examiner's citation of a prior patent for a device that controls the electrical current in a compact by a different means, to narrow his claim to a switch operated by a rotating cam in the hinge of the compact.

In 1978, Boyd gave an exclusive license for his cam switch to defendant D & E Trading Corporation ("D & E"). The license covered the cam switch and any improvements of that invention (patent number 4,126,145). The agreement was to expire on August 31, 1980, subject to a clause specifying the conditions for renewal. Also in 1978, D & E acquired 50 percent of the stock of Schildkraut Giftware Corporation ("SGC"), and SGC undertook to arrange for manufacturing and marketing of compacts using the cam switch. Initially, compacts containing Boyd's cam switch enjoyed some success, but sales declined as product returns, prompted by malfunctioning of the cam switch, increased.

SGC's principal, an engineer, undertook to develop an alternative device for controlling the compact lights. He devised a wedge switch, which drove a wedge between two wires to break the circuit when the cover closed. In contrast, Boyd's cam switch aligned metal strips on the cam with the battery when the cover opened. By October 1979, D & E and SGC discontinued sales of compacts containing Boyd's cam switch and sold only compacts using the newly developed wedge switch. In November, D & E exercised its right under the 1978 license and terminated the agreement as of August 1980.

Thereafter, Boyd, D & E, and SGC entered into a new agreement dated March 1, 1980. The 1980 agreement provided that the 1978 agreement was terminated

as of January 1, 1980, instead of August 31, 1980. The 1980 agreement also provided that Boyd would give defendants an exclusive license for a design patent for compacts if Boyd was successful in obtaining a design patent for which he had applied. The design patent never issued. In negotiating the 1980 agreement, defendants insisted that Boyd acknowledge that the wedge switch did not infringe the mechanical patent for the cam switch. Boyd's attorneys made that representation in writing in a letter on which Boyd noted his agreement.

Boyd's complaint made various allegations. He claimed that he was fraudulently induced to enter the 1980 agreement because defendants knew but failed to disclose that similar compact designs were on the market and that Boyd's design patent application was doomed. He also sought an accounting under the 1978 agreement and 1980 agreement, if the latter was determined not to be fraudulently induced. Finally, he claimed unjust enrichment for use of his trade secrets and know-how, in the event that all contractual agreements were deemed ended as of August 1980.

Judge Werker, to whom the case was originally assigned, granted Boyd's unopposed motion for partial summary judgment, ruling that Boyd was entitled under the 1978 agreement to royalties for all compacts sold by defendants with the patented cam switch. In subsequent rulings, Judge Werker made clear that under the 1978 agreement, Boyd was entitled to royalties only for compacts embodying the '145 patent. At a status conference after Judge Werker's death, Judge Lowe reconfirmed Judge Werker's ruling as to the scope of the 1978 license

agreement and referred the matter to a magistrate judge for an accounting.

The magistrate judge also reconfirmed that Boyd was entitled to royalties only for compacts using the '145 patent and could not collect for compacts using the wedge switch. He also ruled that the appearance of the '145 number on a few compacts using the wedge switch was "entirely accidental and unintentional" and did not estop defendants from denying that the wedge switch compacts did not infringe the '145 patent and from declining to make royalty payments with respect to those compacts. He determined that Boyd was owed $76,789 in unpaid royalties. Judge Lowe confirmed the findings of the magistrate judge, except as to the amount of royalties. On the basis of what she concluded was undisputed evidence concerning the time periods of compact sales, she concluded that no royalties were unpaid.

Discussion

I. Patent Mismarking

Federal law makes patent mismarking a criminal offense. 35 U.S.C. § 292 (1988). The offense includes placing a patent number on a product without the consent of the patentee "with the intent . . . of deceiving the public and inducing them to believe that the thing was made or sold by or with the consent of the patentee . . . ." *Id.* § 292(a). The statute is enforceable by a *qui tam* remedy, enabling any person to sue for the statutory penalty and retain one-half of the recovery. *Id.* § 292(b). The scienter element of the penal offense also applies to the *qui tam* remedy. *See Brose v. Sears, Roe-*

buck and Co., 455 F.2d 763, 768-69 & n.8 (5th Cir. 1972).

In the civil context, it has been held that placing a patent number on a product will estop a manufacturer from denying that his product embodies the patent for purposes of liability for both patent infringement damages, *see Piaget Novelty Co. v. Headley*, 108 Fed. 870, 872-73 (2d Cir. 1901); *Caanan Products, Inc. v. Edward Don & Co.*, 273 F. Supp. 492, 502 (N.D. Ill. 1966), *aff'd*, 388 F.2d 540 (7th Cir. 1968), and patent license royalties, *see Gridiron Steel Co. v. Jones & Laughlin Steel Corp.*, 361 F.2d 791, 797 (6th Cir. 1966).

Whether the scienter requirement of the mismarking offense is an element of marking estoppel has not been decided by this Court and has elicited varying views elsewhere. In *Crane Co. v. Aeroquip Corp.*, 364 F. Supp. 547, 560 (N.D. Ill. 1973), *aff'd in part, rev'd in part without consideration of this point*, 504 F.2d 1086, 1093 (7th Cir. 1974), the Court endorsed the application of marking estoppel without a scienter requirement, explicitly refusing to import the wrongful intent element from section 292. By contrast, in *Eastman Kodak Co. v. E.I. DuPont de Nemours & Co., Inc.*, 298 F. Supp. 718 (E.D. Tenn. 1969), the Court declined to apply marking estoppel once it determined that "the error in mismarking was mistakenly and innocently made with no intent to deceive." *Id.* at 733. *See also Dwight & Lloyd Sintering Co., Inc. v. American Ore Reclamation Co.*, 44 F. Supp. 401, 402 (S.D.N.Y. 1941) (marking estoppel applied "in view of all the circumstances").

We think that marking estoppel, like other varieties of estoppel, should arise only when a consideration of all aspects of a defendant's pertinent conduct makes it

inequitable for him to take a position contrary to his prior statements or actions. The act of impermissibly placing a patent number on a product, if limited in time and quantity, does not inevitably have such adverse effects for the patentee or the consuming public as to bar the mismarker from establishing that his product does not use the patent. Though a patentee or licensor normally will understandably have evidence only of sporadic instances of mismarking and need not identify widespread mismarking to raise a claim of estoppel, the accused mismarker should be able to defeat the claim by showing how inadvertent and limited the mismarking was. Of course, deliberate mismarking of even a limited nature or inadvertent mismarking over a prolonged period would justify an estoppel. *See Gridiron Steel Co.*, 361 F.2d at 797 (mismarking for 12 years); *Lathrop v. Rice & Adams Corp.*, 17 F. Supp. 622, 626 (W.D.N.Y. 1936) (mismarking for five years).

In this case, the undisputed evidence showed that SGC instructed its Hong Kong manufacturer to reprint labels for the compacts using the wedge switch and delete the reference to Boyd's patent number. Because of a mistake made by non-English speaking employees, the first shipment of wedge switch cases were accidentally shipped with the old labels. The mistake was quickly noticed, the old labels were destroyed, and subsequent shipments bore no incorrect marking. Under these circumstances, the Magistrate Judge was entitled to conclude that the mismarking was "entirely accidental and unintentional" and "for a brief period," and did not provide a basis for marking estoppel.

II. Other Issues

The remaining issues require little discussion. Boyd insists that the 1978 license agreement covered many aspects of the lighted compact, in addition to the patented cam switch. However, the agreement expressly conveys a license for "the Invention" and recites that Boyd has applied for a patent on "the Invention." The '145 patent covers the cam switch and nothing more. As Judge Werker and the Magistrate Judge ruled, Boyd gave a patent license, not a license to market a product. *Cf. Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

Boyd claims that he is due royalties under the 1978 and 1980 agreements with respect to compacts the defendants sold that use SGC's wedge switch. Preliminarily, we note that in rejecting this claim, the Magistrate Judge's finding of no infringement arguably raises an issue as to our appellate jurisdiction vis-a-vis the jurisdiction of the Court of Appeals for the Federal Circuit over claims arising under 28 U.S.C. § 1338 (1988). *See* 28 U.S.C. § 1295(a)(1) (1988). Though claims founded on section 1338 might arise in the course of litigation, thereby placing in doubt appellate jurisdiction outside the Federal Circuit, *see Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 814-15 (1988); *id.* at 822-24 (Stevens, J., concurring), the determination of no infingement in this case was a finding that royalties were not due under a license. That was an adjudication of a state law claim within the District Court's diversity jurisdiction, *see Luckett v. Delpark, Inc.*, 270 U.S. 496, 510-11 (1926), as to which our appellate jurisdiction is clear. On the merits, the claim was properly rejected in view of Boyd's explicit concession, in connection with the

1980 agreement, that the wedge switch did not infringe the '145 patent for the cam switch. The concession was well advised in view of the nearly certain preclusion of the claim by virtue of file wrapper estoppel.

Boyd's procedural objections are equally unavailing. Contrary to his claim, it was not improper for Judge Lowe, in effect, to grant partial summary judgment at the status conference she conducted following Judge Werker's death. Defendants had previously moved for summary judgment, and the matters not yet adjudicated by Judge Werker remained available for decision by Judge Lowe. Nor was there a denial of a jury trial by reason of the reference of the royalty computation issues to the Magistrate Judge. When Judge Lowe proposed referring the royalty calculations to a Magistrate Judge, she inquired of Boyd's counsel whether there was objection, and was told only that counsel would have to discuss the matter with his client. No objection was raised until the proceedings before the Magistrate Judge were well along. Even then, Boyd's counsel sought only to claim a jury trial on infringement as an issue purportedly distinct from the obligation to make royalty payments. Since the claim was for royalty payments, it was too late, after the royalty issues had been referred to the Magistrate Judge, to obtain a jury on the subsidiary issue of infringement, on which rested the royalty claim for the wedge switch compacts.

We have considered Boyd's remaining contentions and conclude that they lack merit for the reasons explained by the District Court.

The judgment of the District Court is affirmed.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 (HFW)

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION,

Defendants.

ORDER

As you know the above-entitled action is assigned to HONORABLE HENRY F. WERKER, D.J. for all purposes. The attorneys in this action are to appear on July 17, 1981, at 10:15 A.M. in Room 2603 for a pretrial conference to fix a trial date or reach a disposition thereof. All future documents filed in this action are to have the initials (HFW) after the docket number.

Dated: New York, New York
June 5, 1981

NOTA BENE

YOU ARE DIRECTED TO NOTIFY OPPOSING COUNSEL OF THIS CONFERENCE.

By Order of the Court
RAYMOND F. BURGHARDT
Clerk

/s/ THOMAS F. HUGHES
THOMAS F. HUGHES
DEPUTY COURT CLERK

NOTE: No applications for adjournment will be entertained. Attorney handling this matter must appear.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

[PROPOSED] ORDER

It is hereby ORDERED that both defendants, Schildkraut Giftware Corporation and D & E Trading Corporation, shall, on or before August 18, 1981, serve their answers to each and every interrogatory of Plaintiff's First Set of Interrogatories, except Interrogatory No. 3; and

It is further ORDERED that both defendants, Schildkraut Giftware Corporation and D & E Trading Corporation, shall, on or before August 18, 1981, produce for inspection and copying all documents of which they have possession, custody or control designated in all paragraphs of Plaintiff's First Request to Produce and in all paragraphs of Plaintiff's

Second Request for Production of Documents Under Rule 34. The requested documents are to be made available for inspection and copying at defendants' offices and places of business and shall be segregated for inspection and copying by plaintiff's attorneys and/or agents.

August 17, 1981
Date

/s/ HENRY F. WERKER
HENRY F. WERKER
United States District Judge

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 (HFW)

RAYMOND BOYD

Plaintiff,

-v-

Defendants.

PRETRIAL ORDER #2

Dated: October 9, 1981

HENRY F. WERKER, D. J.

The parties to this action, by their attorneys, having appeared before this court at a pretrial conference on October 9, 1981, pursuant to Rule 16 of the Federal Rules of Civil Procedure, it is hereby STIPULATED AND ORDERED that:

The parties shall complete all discovery by February 2, 1982.

The parties shall submit to chambers (1) a Consent Pretrial Order, (2) Briefs on contested issues of law, (3)

Requests to Charge, (4) Proposed Voir Dire, and (5) copies of the expert's sworn statements by _____. On this date, this action shall be added to Judge Werker's reserve trial calendar and thereafter when reached will be placed on his ready trial calendar, published in the New York Law Journal. Once published on the ready trial calendar, all parties must be ready to proceed to trial on short telephonic notice. Adjournments will not be granted once the case is on the ready trial calendar, except for good cause arising from some event occurring thereafter.

The Consent Pretrial Order is to be prepared in accordance with Judge Werker's Procedures dated October 5, 1981 annexed hereto, of which the parties hereby acknowledge receipt. Pretrial Order due March 5, 1982.

Failure to comply with any of the provisions of this order may result in this court's appropriate sanctions, including termination of the action.

/s/ Samuel ???
/s/ Alfred H. Hemingway, Jr.
Attorney(s) for Plaintiff(s)

/s/ ????
Attorney(s) for Defendant(s)

DATED: New York, New York

SO ORDERED.

_____ _____
HENRY F. WERKER
United States District Judge

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

PRETRIAL ORDER

HENRY F. WERKER, D. J.

The parties to this action, by their attorneys, having appeared before the court at a pretrial conference on December 11, 1981, pursuant to Rule 16 and Rule 37 of the Federal Rules of Civil Procedure it is hereby ordered that:

The parties shall complete all discovery by February 26, 1982.

The next pretrial conference shall be at 10:00 A.M., March 26, 1982 and at that time the parties shall submit a consent Pretrial Order, briefs on contested issues of law,

request to charge, proposed voir dire and copied of expert's sworn statements.

All documents previously produced by defendants for inspection and copying by plaintiff need not again be produced.

Sales records, including computer printouts, and including 1981 sales, of all models of lighted mirror cases sold by defendants are to be produced by defendants by January 18, 1982 and defendants shall testify to same in depositions of defendants, including 1981 sales, on a date to be noticed by plaintiff, thereafter.

Plaintiff is to specify with reasonable particularity the documents to be produced by defendants. For this purpose, plaintiff is to be permitted to examine the file of a typical purchaser of defendants relating to purchases of lighted mirror cases and identify the documents therefrom which are to be produced by defendants as to the files of other purchasers of lighted mirror cases.

Defendants shall not be required to testify or produce records of their profits.

The parties shall not be required to testify as to confidential communication between any party and his or its attorney.

Defendants are to produce for inspection and copying all documents which refer, relate to, or embody correspondence between defendants of the subject of lighted mirror cases.

Plaintiff is to produce for inspection or copying the audit reports made on behalf of plaintiff pertaining to lighted mirror cases sold by defendants.

/s/ ????

Jerome Fisch, Attorney for Defendants

/s/ ????
Arthur, Dry & Kalish, P.C.
Attorneys for Plaintiff

DATED: New York, New York
December , 1981

SO ORDERED.

HENRY F. WERKER
United States District Judge

MEMORANDUM ENDORSEMENT

BOYD V. SCHILDKRAUT GIFTWARE CORP., ET ANO.

81 CIV. 1896 (HFW)

Defendants have moved for summary judgment pursuant to Fed. R. Civ. P. 56, for a stay of all discovery pending determination of the motion and for a protective order limiting discovery to the period of June, July and August 1980, and directing a bifurcated trial. On January 19, 1982, the court instructed counsel that discovery was to proceed while the within motions were pending.

The return date of defendants' motions was January 25, 1982. On that day, plaintiff filed a memorandum opposing the motion for summary judgment on the ground that defendants failed to file a statement pursuant to Rule 3(g) of the Civil Rules of the District Court. He opposed defendants' other motions on the ground that this court had not granted defendants permission to make them. Defendants subsequently filed their Rule 3(g) statement on February 8, 1982.

Although plaintiff has since filed its counter statement pursuant to Rule 3(g), plaintiff clearly has been prejudiced by defendant's failure to timely filed its Rule 3(g) statement. indeed, plaintiff has not filed a memorandum of law with respect to the merits of the summary judgment motion as a result of the confusion incident to defendants' haphazard manner of proceeding. Accordingly, defendants' motion for summary judgment is hereby denied at this time on the

ground that it failed to timely file its Rule 3(g) statement and comply with the rules of this court.

In view of the court's denial of the motion for summary judgment, defendants' motions for a stay of discovery and for a protective order limiting the scope of discovery are denied. Similarly, its motion for a bifurcated trial is denied on the ground that the parameters of any trial in this are unclear at this juncture.

SO ORDERED.

DATED: New York, New York
March 1, 1982

U.S.D.J.

MEMORANDUM ENDORSEMENT

BOYD V. SCHILDKRAUT GIFTWARE CORP., ET ANO.

81 CIV. 1896 (HFW)

By the within motion, plaintiff seeks an order pursuant to Fed. R. Civ. P. 37(d) requiring defendant D&E Trading Corporation to pay plaintiff the reasonable expenses, including attorneys' fees, caused by defendants' failure to produce documents at a deposition scheduled for January 12, 1982. The documents were requested in a Request for Production of Documents attached to a Notice for Production of Documents attached to a Notice of Defendant's Oral Deposition, served by hand on counsel for defendants' on December 22, 1981. Plaintiff's motion follows a lengthy discovery period in which defendants repeatedly have engaged in delaying and obstructive tactics.

The only explanation offered by defense counsel for failing to produce the within documents is that the "documents for inspection had not yet been segregated from the filed, with some exceptions. To bring all of the files from which the documents were to be removed was a burden Mr. Sacks was in no position to undertake." This explanation is wholly unsatisfactory. Plaintiff's notice to produce and request for production was served three and one half weeks before the date of the deposition. This was more than enough time to produce the necessary documents. If defendant was unable to produce them within that time, it should have requested a short adjournment of the deposition. This it did not do, however, and plaintiff's counsel appeared

at the deposition expecting to proceed with the requested documents.

In light of the foregoing, and after reviewing the record of pre-trial proceedings in the case including the numerous conferences held before me, it is my determination that the imposition of the above sanctions against the defendant is fully warranted. Plaintiff is directed to furnish the court with affidavits establishing the reasonable expenses including attorneys' fees, caused by defendant's failure to produce the requested documents on January 12, 1982.

SO ORDERED.

DATED: New York, New York
March 1, 1982

_____

U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

ORDER

This Court, by its decision dated March 1, 1982 having granted plaintiff's motion for an order requiring defendant D & E Trading Corporation to pay plaintiff the reasonable expenses, including attorneys' fees, caused by defendants failure to product documents at a deposition scheduled for January 12, 1982, and directing plaintiff to furnish the Court with affidavits establishing the same, and plaintiff having done so:

IT IS HEREBY ORDERED that defendant D & E Trading Corporation pay plaintiff the sum of $1151.25, being the reasonable expenses, including attorneys' fees

caused by defendants failure to produce documents as the deposition of January 12, 1982.

SO ORDERED

_____

U.S.D.J.

DATED: New York, New York
_____, 1981

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

DECISION ON PLAINTIFF'S MOTION FOR
PARTIAL SUMMARY JUDGMENT

Plaintiff having on July 30, 1982 made two motions for partial summary judgment, and defendants having indicated in Defendant's Memorandum of Law in Opposition to Plaintiff's Motion that defendants do not dispute the first of Plaintiff's motions for partial summary judgment and, whereas plaintiff has indicated that in view of defendant's lack of opposition to the first of the motions for a partial summary judgment he voluntarily has withdrawn the second motion without prejudice.

IT IS HEREBY found as a matter of law that under the March 8, 1978 agreement (joint trial exhibit 78) royalties were due plaintiff for all "Ray-glo" folding purse mirror cases sold by defendant D & E Trading Corporation and which cases are defined as follows:

> A folding mirror case adapted to be used in a woman's purse. Mounted within the inside of the case is a battery, a switch and electric lights. Within the case is an intermediate member having a configuration complementary to the bottom of the case which covers the battery, lights and part of the switch. The intermediate member includes a mirror and light diffusers. The case includes a switch which is adapted to turn the lights on when the case is opened and turn the lights off when the case is closed.

IT IS FURTHER ORDERED that the second of Plaintiff's motions for partial summary judgment is hereby withdrawn without consideration and without prejudice.

/s/ HENRY F. WERKER
HENRY F. WERKER
United States District Judge

Dated: _____
New York, New York

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

RAYMOND BOYD,

Plaintiff,

- against -

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

MEMORANDUM DECISION
81 Civ. 1896 (HFW)
Dated: 12/1/82
#964

APPEARANCES: (See last page).
HENRY F. WERKER, D. J.

This is a motion for summary judgment pursuant to Fed. R. Civ. P 56 by defendants Schildkraut Giftware Corporation ("Schildkraut") and D & E Trading Corporation ("D & E"). The defendants seek dismissal of the first count of the amended complaint, dismissal of the second count, or alternatively, limiting the relief requested in the second count to an accounting from May 1980 to August 10, 1980 and dismissal of the third count. The defendants have also

moved for reargument of the court's decision dated September 24, 1982 which disposed of plaintiff's motion for summary judgment, or in the alternative, for certification of that decision for interlocutory appeal pursuant to 28 U.S. C. § 1292(b). The request for certification for interlocutory appeal is denied.

Plaintiff Raymond Boyd is a citizen of Pennsylvania and defendants Schildkraut and D & E are both New York corporations having their principal places of business in a state other than Pennsylvania. Jurisdiction is premised on diversity of citizenship with an amount in controversy exceeding $10,000. 28 U.S.C. § 1332.

I.

In March 1978 Boyd and D & E entered into an agreement concerning a lighted compact known as the "Ray-glo" compact described as the invention in the agreement. Boyd had applied for a United States Patent on the invention which application was pending before the United States Patent Office on March 8, 1978, the date that the agreement was entered into by the parties. Schildkraut was not a party to the 1978 agreement. Under the agreement, Boyd represents to D & E that he is the sole inventor and exclusive owner of the invention and that he filed the patent application on the invention. Paragraph two of the agreement provides that Boyd "hereby grants and conveys unto D & E the exclusive right and license to produce, manufacture, distribute, sell . . . the invention and all patents that may be issued thereon, and all additions and improvements . . . and developments thereof, including all other products and items which may hereafter be developed or ____ed incorporating or using any of the salient features of the invention or any of the ideas,

concepts or claims set forth in the patent application . . . ." In paragraph three, Boyd agrees to furnish D & E "with all production and manufacturing knowhow and techniques now or hereafter known or available to Boyd . . . which may be of assistance to D & E in the production and manufacture of the invention and the Other Products . . . ." Paragraph seven provides that D & E will pay Boyd royalties "on the net receipts derived by D & E from sales of the invention and the other products." Boyd received a patent for his invention in November 1978.

The 1978 agreement was to run to August 31, 1980 and was to be renewed annually unless notice of intent not to renew the agreement was given at least thirty days before the end of the contract term. By letter dated November 7, 1979, D & E notified Boyd that D & E would not renew the 1978 agreement and it would expire on August 31, 1980. Exhibit C attached to affidavit of Edward S. Sacks sworn to July 29, 1982.

Defendants contend that the 1978 agreement was an agreement to license D & E to manufacture and sell a ladies compact which contained the specific lighting and electrical components set forth in the Boyd patent application and ultimately in the letters patent issued to him. D & E contends that in the spring of 1979 competitors were copying the lighted mirror cases which it had begun to sell in September 1978 and that it demanded that Boyd take steps to protect his patent. Edward Sacks, President of D & E states that "in order to continue to compete, my company and Schildkraut . . . developed a lighting system for the mirror cases which was completely different from the Boyd invention. Boyd did not participate in . . . development of this different lighting system. In November 1979 I notified Boyd that the new lighting system we developed without his

contribution, were not his invention and were not subject to royalties under the 1978 agreement. I notified him that the 1978 agreement would be terminated in accordance with its provisions as of August 31, 1980." Affidavit of Edward S. Sacks sworn to August 27, 1982 submitted in opposition to plaintiff's motion for summary judgment, at 8.

The parties then entered into negotiations for a new agreement. On March 1, 1980 Boyd, D & E and Schildkraut entered into the new agreement which terminated the 1978 agreement as of January 1, 1980 and provided in paragraph one "that neither party has any obligation under said [1979] agreement. Exhibit B attached to defendants' notice of motion for summary judgment.

The 1980 agreement settled the disputes which had arisen under the 1978 agreement and also gave Boyd royalties on the sale on and after January 1, 1980 only of lighted mirror cases which reflected a design for which Boyd had filed a design patent application in August 1979. (Exh. E attached t defendants' notice of motion. Paragraphs twenty and twenty-one of the 1980 agreement recite that Boyd was not entitled to royalties after August 10, 1980 if his application for a design patent did not by then result in the issue of a patent. Boyd did not have a design patent by August 10, 1980 and his application for the design patent was ultimately denied later in 1980. Exhs. F and G. attached to defendants' notice of motion.

Defendants contend that under the 1980 agreement Boyd would not be entitled to any royalties from the sale of any lighted mirror cases after August 10, 1980 and that, had the 1980 agreement not been executed, Boyd has acknowledged that the 1978 agreement would have been terminated on August 31, 1980. Boyd states that "[a]t no time did D & E or Schildkraut . . . communicate to me that they intended to

terminate their use of my know-how and trade secrets after August 31, 1980 and therefore at no time did I receive a clear communication that D & E or Schildkraut did not intend to renew the 1978 agreement." Affidavit of Raymond Boyd sworn to March 9, 1982 ¶ 4.

Paragraph five of the 1980 agreement gave Boyd the right to an accounting. Boyd's attorney demanded an accounting in April 1980. Exh. H attached to defendants' notice of motion. Boyd's accountant, Mr. Hadley, conducted an accounting at the premises of defendants in May 1980. Mr. Hadley's report in effect states that all sums due Boyd had been paid to him. Exh. I attached to defendants' notice of motion. This accounting covered the period from september 1978 to May 1980.

Boyd states that the negotiations for the 1980 agreement were carried out by his patent attorney who informed the attorneys for defendants that as a condition for the design patent application to mature into a valid patent there must have been no public use or sale of the design disclosed in the patent application more than one year prior to the date of filing of the design patent application which was filed on August 13, 1979.

Boyd contends that the defendants fraudulently induced him to enter the 1980 agreement by making a false representation in paragraph two of the agreement which states that "D & E and Schildkraut represent that no lighted mirror cases were sole or offered for sale or publicly used or displayed by either of them . . . prior to September 1, 1978." Boyd claims that the representation contained in paragraph two was false because lighted mirror cases were on the market prior to September 1, 1978.

Defendants argue that Boyd's statements in his deposition that he saw advertising circulars of his lighted mirror cases

and the cases themselves exhibited for sale at a trade show prior to September 1, 1978 precludes any claim that he relied on the alleged misrepresentation in paragraph two of the 1980 agreement. Boyd claims that it is not an issue as to whether he saw a public disclosure of his design on August 16, 1978 at the New York Giftware show since such public disclosure would not have been a bar to his obtaining a patent being less than one year prior to the filing date of his patent design application. Boyd affid. ¶ 12.

II.

The court would agree that there is an issue of fact as to whether there was a false representation made by defendants to plaintiff and embodied in paragraph two of the 1980 agreement relating to the representation made by defendants that no lighted mirror cases were sold or offered for sale prior to September 1, 1978.

Defendants contend that plaintiff knew of sales before such date and that the clause was intended not as a representation of dates but rather as a delineation of the term during which sales of lighted mirror cases were made for purposes of computing royalties. Plaintiff contends that his design application for a patent was denied because of public sales and that he was fraudulently induced to sign the 1980 agreement.

However, no finding or ruling is now being made, pending disposition of the validity of the 1980 agreement, that the plaintiff is entitled under the 1978 agreement to royalties for sales of lighted mirror cases which may not embody the lighting and electrical mechanisms for which plaintiff received a patent. Plaintiff contends that he licensed his know-how and trade secrets under the 1978 agreement.

Defendants contend that what was licensed was merely the right to produce and sell the Boyd invention as to which Boyd had filed a patent. If the 1980 agreement is found to be valid, then the 1978 agreement and all obligations thereunder would have terminated as of January 1, 1980.

Plaintiff's motion for partial summary judgment has been disposed of completely by this court's decision dated September 24, 1982 which held that as a matter of law royalties were payable under the March 1978 agreement for all Ray-glo folding mirror cases containing the electrical and lighting invention as described in the court's decision and as embodied in a ladies compact in the patent application filed by plaintiff on March 11, 1977 and in the Letters of Patent issued to plaintiff on November 21, 1978. Defendants "do not dispute this aspect of the motion" but object to the second relief requested that plaintiff was entitled to royalties under the 1978 agreement for sales of lighted mirror cases which may not embody the lighting and electrical mechanism for which he was awarded a patent. This request was withdrawn by plaintiff. The court interpreted the first part of plaintiff's motion for summary judgment which the defendants did not dispute as being limited to sales of lighted mirror cases which encompass only the claims of plaintiff's patent.

It is clear under the 1978 agreement that plaintiff was entitled to royalties on the sale of folding mirror cases which contained the electrical or lighting mechanism described in his patent. The court believes that this decision clarifies any disputes among the parties concerning the meaning of the decision dated September 24, 1982 and therefore defendants' motion to reargue is denied.

In accordance with the above, defendants' motion for summary judgment is denied.

SO ORDERED.

DATED: New York, New York
December 1, 1982

U.S.D.J.

APPEARANCES

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MEMORANDUM ENDORSEMENT

BOYD V. SCHILDKRAUT GIFTWARE CORPORATION ET AL.,

81 CIV. 1896 (HFW)

Plaintiff has requested permission to move to amend the complaint to include a cause of action for patent infringement against Schildkraut Giftware Corporation in the event that it is determined that Schildkraut Giftware Corporation was not acting as an agent of D & E Trading Corporation under the March 8, 1978 agreement between plaintiff and D & E Trading Corporation. Permission to make the motion is denied on the ground that the pretrial order has been submitted and the case is close to trial.

SO ORDERED.

DATED: New York, New York
December 14, 1982

/s/ HENRY J. WERKER
U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

RAYMOND BOYD,

Plaintiff,

- against -

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

MEMORANDUM DECISION
81 Civ. 1896 (HFW)
Dated: 4/11/83
#1016

APPEARANCES: (See last page).
HENRY F. WERKER, D. J.

Plaintiff Raymond Boyd moves for partial summary judgment. He seeks a holding that, as a matter of law, royalties due him under the March 8, 1978 agreement are not restricted only to sales which infringe the claims of the United States patent No. 4,126,145, contending that said agreement is not a mere patent license.

At the time of the execution of the March 8, '978 Agreement ("the Agreement") between plaintiff and defendant D & E Trading Corporation ("D & E"), no patent was in existence but an application had been filed. Plaintiff contends that the Agreement requires payment of royalties on the sale of what was known as "The Ray-glo Compact" (the invention) and not merely on what was covered by the claims of the patent application. Therefore, it is contended that the Agreement is a license for the sale of an "invention" and was not limited to a patent license under an unissued patent.

It is admitted that during the period between December, 1977 and March 8, 1978 the plaintiff disclosed to Edward Sacks, president of D & E, a lighted compact, including a prototype. This lighted compact was disclosed to D & E and is shown and described in U.S. Patent Application No. 776,593 which was pending, during this period and which matured into U.S. Patent 4,126,145 issued on November 21, 1978 after the signing of the March 8, 1978 Agreement. The lighted compact disclosed to D & E comprised a folding case adapted to be used in a woman's purse. Mounted within the inside of the case is a battery, a switch and electric lights. Within the case is an intermediate member having a configuration complementary to the bottom of the case which covers the battery, lights and part of the switch. The intermediate member includes a mirror and light diffusers. The case includes a switch which is adapted to turn the lights on when the case is opened and turn the lights off when the case is closed. *See* plaintiff's statement of undisputed material facts, ¶¶ 4-5; Defendants' statement of undisputed material facts, ¶¶ 4-5.

Defendants contend that the Agreement was intended to license D & E to manufacture, market and sell the Boyd

invention, i.e., the electrical or mechanical mechanism described in plaintiff's patent application and as demonstrated in the prototype which plaintiff had shown Mr. Sacks on December 22, 1977. In effect, that the invention in the 1978 agreement is the same as the invention described in plaintiff's patent application and Letters Patent.

The March 8, 1978 Agreement recites that Boyd has "heretofore invented a lighted compact known as the 'Rayglo Compact' ('the invention')" and has applied for a United States Patent on the invention and expresses the parties desire to enter into an agreement granting D & E the exclusive right to manufacture and sell the invention and related items and to use and exploit any patents which may issue thereon.

Plaintiff therein represents that he is the sole and exclusive owner of the invention and that he has heretofore caused to be filed the patent application on the invention bearing serial No. 776,593; that "he has been advised by his patent attorneys, Duffield & Lehrer, that it is their opinion that a patent will issue from the U.S. Patent Office on one or more of the claims set forth in the Patent Application." Boyd further agreed "that he will, promptly after the execution of this agreement, furnish D & E with an opinion letter from Duffield & Lehrer to that effect." March 8, 1978 Agreement, ¶¶ 1, 14.

Plaintiff therein grants to D & E "the exclusive right and license to produce, manufacture, distribute, sell, market, use and otherwise exploit and commercialize the Invention and all patents that may issue thereon, and all additions, improvements, modifications, extensions and developments thereof, including all other products and items which may hereafter be developed or invented incorporating or using any of the salient features of the Invention or any of the

ideas, concepts or claims set forth in the Patent Application, and any amendments thereof, or in any patents that may hereafter be issued pursuant to the Patent Application (hereafter referred to as the 'Other Products')." Agreement, ¶ 2. The grant of the license in paragraph two refers to the invention and all patents.

Boyd further agrees to use his best efforts to obtain patent protection for the invention and diligently pursue the processing of the patent application and to promptly file applications for patents on the invention in specified foreign countries, Boyd and D & E each committing to pay one-half of the legal expense of such foreign patent applications. Agreement ¶ 9. Boyd agreed to reimburse D & E for the portion of legal expense paid by it if a foreign patent was not granted to Boyd. Boyd further agreed "to reimburse D & E for the portion of the legal expense of said foreign patent applications paid by it (even though a patent is granted to Boyd) in the event D & E renews this agreement for any additional term, beyond the initial term . . . ." Agreement ¶ 9.

Paragraph 12 of the Agreement states that D & E has heretofore paid over to Boyd's attorneys, Duffield and Lehrer, the sum of $6,000 on account of the legal expenses of processing foreign patent applications on the Invention." Paragraph 15 recites the termination clause which provides that "[t]his agreement shall continue in force and effect for an initial term ending August 31, 1980. D & E shall have the right to renew this agreement for an additional period of three years, up to August 31, 1983, . . . provided that D & E shall have paid Boyd at least $100,000 in royalties during the initial term of this agreement. D & E shall automatically be deemed to have exercised its option to renew this agreement for such additional three-year term unless it shall give

Boyd written notice of its intention not to renew at least 30 days prior to the expiration of the initial term of this agreement . . . .".

Plaintiff argues that the Invention in the 1978 Agreement is not limited to the Invention described in his patent application and Letters Patent. This argument is without merit.

I conclude that the March 1978 Agreement is a patent license and not a license for the sale of an invention. The words Invention and patents are used interchangeably and the language of the Agreement stresses the importance of the patent in great detail and provides not only for the filing of specific foreign patent applications by plaintiff but shows D & E's financial interest in providing for the legal expense of such patents.

Aronson v. Quick Point Pencil Co., 440 U.S. 257(1979), is clearly distinguishable. The agreement there provided for the payment of a 5% royalty for "'the exclusive right to make and sell keyholders of the type shown in your application.'". *Id.* at 259. Royalties would be reduced to 2 1/2% if the patent application was not allowed in five years. The patent was not allowed within five years, whereupon the royalty was reduced to 2 1/2%. Subsequently, the patent application was rejected. The parties operated for 14 years before an action was commenced. *Id.* at 260. In *Pitney-Bowes, Inc. v. Mestre*, 517 F. Supp. 52, 211 U.S.P.Q. 681 (S.D. Fla. 1981), the court discussed *Aronson*, and stated "[i]n *Aronson* the language of the contract placed no condition on the issuance of a patent, and both parties were aware that a patent might not be granted. From these facts the Court concluded that the manufacturer placed significant value on exploiting the basic novelty of the device, even if no patent issued." 211 U.S.P.Q. at 688.

In *Pitney-Bowes*, the plaintiff conceded that trade secrets were disclosed but contended that, as a matter of law, the machine agreements became patent licenses when patents issued on the licensed machines. 211 U.S.P.Q. at 689. The court in *Pitney-Bowes* ruled that the Rotary Collator Agreement, as amended, was a trade-secret, know-how license. The court noted, however, that the:

> "license portion of the agreement made no reference to patents, nor to rights or interests in letters patent. At the time of the execution of the agreement no patents had issued on the rotary collator. The agreement did not provide for an expiration date, and therefore conceivably could have continued indefinitely pending payment of the maximum fixed royalty. The agreement provided for the delivery of machine prototypes, drawings and a parts list. The conclusion is inescapable that the original Rotary Collator Agreement was solely a trade secret, know-how license." 211 U.S.P.Q. at 689.

Aronson and *Pitney-Bowes* are clearly distinguishable from this case. This court holds that, as a matter of law, the March 8, 1978 Agreement is solely a patent license. Plaintiff's motion for partial summary judgment is denied.

SO ORDERED.

DATED: New York, New York
April 11, 1983

_____

U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 (MJL)

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

CONSENT PRE-TRIAL ORDER

The parties, having exchanged proposed findings and counter-findings of fact in accordance with the pretrial procedures of United States District Judge Henry F. Werker, hereby submit the following.

A. Agreed Findings of Fact

1. Plaintiff is a citizen of the Commonwealth of Pensylvania, Defendant Schildkraut Giftware Corporation ("Schildkraut") has office at 40 W. 37th Street, New York, NY, and Defendant D & E Trading Corpora-

tion ("D&E") has an office at 8 w. 36th Street, New York, NY. Both defendants are New York Corpra-tions having their principal place of business in a state other than Pennsylvania. The matter in controversy exceeds, exclusive of interests and costs, the sum of $10,000.

2. During the period of December 1977 through March 8, 1978 plaintiff and defendant D&E negotiated an agreement executed on March 8, 1978 under which D&E agreed to pay plaintiff royalties on D&E's receipts from the sales of lighted mirror cases covered by the agreement.

3. Shortly after the signing of the above noted agreement, defendant D&E purchased 50% interest in Schildkraut Giftware Corporation.

4. On or about Oct 26, 1979 defendant D&E made the last royalty payment to Mr. Boyd in 1979. No royalty payments were made by defendant until after March 1, 1980 when a second agreement was signed in which the first agreement was expressly terminated.

5. In the second agreement D&E and Schildkraut agreed to pay plaintiff royalties based on the subject matter of a United States design patent application for the design of a lighted compact.

6. On or about August 6, 1979 Mr. Boyd executed the design patent application which was subsequently filed in the United States Patent & Trademark Office on August 13, 1979 as application serial no. D-065884.

7. At the time of signing of the second agreement dated March 1, 1980, defendants were aware that they had offered the lighted mirror case embodying the design of the patent application for sale in June 1978 by distributing a circular offering it for sale.

8. After August 31, 1980 defendants sold lighted mirror cases without a cam "on-off" switch.

9. Plaintiff has received $169,779.57 in royalty payments for sales by D&E and Schildkraut of which $16,205.39 was paid by Schildkraut and the remainder by D&E.

10. At no time did Letters Patent for Boyd's design patent issue and his application for the same was ultimately denied by reason of said design being "on sale" and "described in a printed publication" prior to Aug 13, 1978, more particularly set forth in the Official Action dated Dec 15, 1980 in Plaintiff's design patent Application Serial No. D-065,884.

11. Orders for the purchase of lighted mirror cases were placed with Schildkraut starting in June 1978 and the first lighted mirror cases were delivered after September 1, 1978.

B. Plaintiff's Proposed Findings of Fact

1. During the period 1975 through December 1977 plaintiff developed an invention consisting of know-how, trade secrets and patentable ideas relating to a folding automatically illuminated mirror case which was subsequent-

ly referred to by the parties as the "Ray-Glow Compact". (Testimony of Raymond Boyd, Deposition page 7 lines 20-25, Gordon Kaye, Edward Sacks and Norman Lehrer, joint trial exhibits 22, 25, 26, 11, 12, 13, 69, 78, Plaintiff's trial exhibits numbers 79-91, 94, 95, 100 and 101, Sacks Deposition, page and line nos. 63 (4-8), 64 (19-25), 65 (2-7), 68 (21-24), 71 (15-24), 73 (6-9, 11-16), 79 (19-24), 81 (10-14), 142 (8-10), 143 (21-25), 144 (2-9), 201 (16-24), and 209 (22-25).

2. In December 1977 when plaintiff disclosed his invention in confidence to Edward Sacks (president of defendant D & E and who subsequently became president of defendant Schildkraut Corporation) the lighted mirror case embodying Mr. Boyd's invention was not marketed by any company. (Testimony of Raymond Boyd, Deposition pages 17 through 19, page 21 lines 14-20, and page 25 lines 14-25, Edward Sacks, Deposition page and line nos. 61 (15-20), 134 (24-25) 136 (2), 144 (10-23), 145 (7-10), 230 (2-6), 364 (8-12), Gordon Kaye and Dohn Schildkraut (Deposition page and line nos. 14 (18-25), 15 (2-3), 115 (2-25), 116 (2-15), 117 (2-25), 118 (2-11), 125 (21-25), 126 (2-25), 127 (2-25), 128 (2-14); joint trial exhibits numbers 25, 26, 27, 29, 12, 75, Plaintiff's trial exhibits numbers 79, 80, 81, 82, 84, 91 and 95).

3. The novelty of Mr. Boyd's invention was sufficiently apparent to induce Mr. Sacks, an experienced novelty manufacturer and importer, to agree to pay for the opportunity to be the first in the market. (Testimony of Raymond Boyd, Deposition page 28 lines 7-11, page 31 lines 1-21, page 38 lines 3-17, Edward Sacks, Deposition page and line nos. 143 (13-25), 144 (2-23), 230 (2-6), 364 8-12), 365 (2-13) and Gordon Kaye; joint trial exhibits numbers 12, 25, 26, 27, 28, 69, 77, 78).

4. Plaintiff and defendant D & E executed a contract dated March 8, 1978 by which D & E agreed to pay plaintiff royalties on receipts from all sales of folding illuminated mirror cases and all additions, improvements, modifications, extensions and developments of the folding mirror or compact cases disclosed to Edward Sacks in confidence by plaintiff. (Testimony of Raymond Boyd, Deposition pages 74-78, 80, 377, 382, Edward Sacks, Deposition page and line nos. 69 (3-15), 89 (11-12), Edward Blumstein and Gordon Kaye; joint trial exhibits number 12, 78. Plaintiff's trial exhibits number 79, 80, 91, 82, 95 and 99).

5. The agreement provided that defendant D & E was to pay royalties to plaintiff on products and items which were developed or invented incorporating or using any of the salient features of the "Ray-Glow Compact." (Testimony of Raymond Boyd, Deposition page 67 lines 12-25, pages 68-72, Edward Sacks, Deposition pages 74-78, 80, 377, 382, Gordon Kaye and Norman Lehrer; joint trial exhibits numbers 12, 78. Plaintiff's trial exhibits number 79, 80, 81, 82 and 95).

6. During the period when the March 8, 1978 Agreement was prepared and negotiated, D&E was aware, or should have been aware that no claims had been allowed on Raymond Boyd's pending patent application and therefore the issuance of a patent on said application was not certain. (Testimony of Charles Duffield, Norman Lehrer, Edward Blumstein, Raymond Boyd, Deposition pages 74-78, 80, 377, 382 and Edward Sacks, Deposition page and line nos. 83 (8-21), 224 (6-12)).

7. Plaintiff delivered to Edward Sacks a prototype and a series of drawings which were similar to the drawings contained in United Sates Patent No. 4,126,145. Said drawings and prototype disclosed plaintiff's novel folding

lighted mirror or compact case and Edward Sacks brought these drawings and prototype to Hong kong to arrange for manufacture of plaintiff's invention. (Testimony of Raymond Boyd, Deposition page 67 lines 12-25, pages 68-72 and Edward Sacks, Deposition page and line nos. 65 (2-5), 76 (2-6), 77 (19-20) 79 (12-25), 80 (2-22), 81 (7-25), 83 (5-6), 85 (18-21), 293 (2-10), 298 (7-25), 299 (2-25), 300 (2-20), 308 (20-25), 209 (2-25), Gordon Kaye; joint trial exhibit numbers 12, 14, 25, 26, 27, 28, 77, plaintiff's trial exhibit numbers 79, 80, 81, 82, 91, 94 and 95).

8. In June 1978, defendants began to market plaintiff's invention. Defendants made their first delivery of a lighted compact embodying plaintiff's invention in September 1978. Plaintiff did not have any records or knowledge as to when defendants began to market his invention. (Testimony of Raymond Boyd, Deposition pages 98, 100, 106, 107, 116-419, 121, 130, 133, 147, page 214 lines 11-25, pages 215-217, pages 220-227, pages 343-350, Edward Sacks, Deposition page and line nos. 65 (2-5), 76 (2-6), 77 (19-20), 79 (12-25), 80 (2-22), 81 (7-25), 83 (5-6), 85 (18-21), 293 (2-10), 298 (7-25), 299 (2-25), 300 (2-20), 308 (20-25), 209 (2-25) and Dohn Schildkraut, Deposition page and line nos. 88 (7-8), 111 (14-25), 112 (2-9), 135 (22-25), 136 (2); joint trial exhibit numbers 21, 29, 68, 76 and 77).

9. Plaintiff's invention ceased to have any secrecy as soon as it was first put on the market by defendants. (Testimony of Raymond Boyd, Edward Sacks, Deposition page and line nos. 136 (20-22), 143 (13-25), 144 (2-23), 14 (2-5 & 22-25), 148 (2-3), 161 (2-17), 364 (21-25), Norman Lehrer and Dohn Schildkraut, Deposition page and line nos. 100 (6-25), 101 (2-14), 161 (20-25), 162 (3-10), 181 (13-17), 188 (12-25), 198 (2-6), 316 (2-25), 318 (2-25), 319 (2-25), 320 (2-5), 321 (2-25), 322 (2-25), 323 (2-25), 324 (2-

25), 325 (2-25), 326 (2-25), 331 (14-25), 332 (2-25), 333 (2-25), 334 (2-25), 335 (12-25), 337 (2-25), 338 (2-25), 339 (2-25), 340 (2-20), 342 (2-24), 517 (16-25), 518 (2-4), 519 (2-25), 529 (2-11); joint trial exhibit numbers 21, 28, Plaintiff's trial exhibit number 95).

10. As a result of plaintiff's disclosure to defendants of his invention pursuant to the March 8, 1978 agreement defendants were able to pre-empt the market and for over one year had over 90% of the market for folding illuminated mirror cases. Defendants continue to this day to maintain a dominance in the market as a result of their being the first in the market and having grossed over $12,000,000 for the sales of their folding illuminated mirror cases. (Testimony of Raymond Boyd, Gloria Boyd, Edward Sacks, Deposition page and line nos. 134 (17-25), 135 (24 & 13-25), 136 (2-25), 144 (10-13 & 16-23), 148 (14-24), 158 (21-25), 159 (2-5), 364 (8-12 & 21-25), 365 (2-13), and Dohn Schildkraut, Deposition page and line nos. 117 (22-25), 118 (2-8), 119 (2-25), 120 (10-22), 181 (4-25), 357 (18-25), 358 (2-13), 360 (11-25), 361 (2-25), 362 (2-14), 403 (22-25), 404 (2-6), 498 (22-25), 499 (2-9); joint trial exhibit numbers 20, 20A, 20B, 21, 23, 24, 30, 31-41, 45-50,53-78. Plaintiff's trial exhibit numbers 95, 96 and 97).

11. Shortly after the signing of the March 8, 1978 agreement Edward Sacks purchased 50% of the Schildkraut Giftware Corporation, became its President, and then proceeded to have Schildkraut Giftware Corporation arrange for the manufacture and sale of plaintiff's invention. Plaintiff and D & E consented to Schildkraut Giftware Corporation being licensed under the agreement and Schildkraut's sales of lighted mirror cases of plaintiff's invention were subject to the royalty provisions of the March 8, 1978 agreement. (Testimony of Raymond Boyd,, Deposition

pages 120-127, Edward Sacks, Deposition pages and line nos. 160 (2-25), 161 (2-9), 282 (13-25), 283 (2-25), 285 (2-25), 286 (2-15), 287 (22-25), 288 (2-17), 289 (11-15), 291 (6-16), 292 (8-12), 327 (7-22), 363 (18-25), 364 (2-17), Dohn Schildkraut, Deposition page and line nos. 4 (13-17), 7 (17-22), 9 (19-25), 10 (4-25), 48 (5-25), 49 (2-25), 50 (2-25), 51 (2-25), 52 (2-25), 55 (2-25), 56 (2-25), 57 (2-11 & 24-25), 58 (2-25), 59 (2-25), 60 (2-25), 61 (2-25), 62 (2-25), 64 (2-25), 65 (2-25), 66 (2-25), 68 (2-25), 69 (2-13), 76 (3-25), 78 (8-23), 79 (9-25), 80 (2-25), 81 (2-25), 82 (2-25), 83 (2-25), 84 (2-25), 85 (2-23), 113 (5-14), 114 (2-19), 150 (9-24), 153 (7-15), 175 (2-25), 176 (2-25), 177 (2-5), 180 (4-14), 210 (5-25), 211 (2-25), 212 (2-24), 214 (16-25), 215 (2-25), 216 (2-5), 390 (3-25), 410 (9-25), 411 (2-7 & 17-25), 412 (2-9 & 16-25), 413 (2-25), 422 (16-25), 413 (2-7), 433 (25), 434 (2-17), 440 (2-5), 452 (20-25), 435 (2-25), 454 (2-4), 459 (18-25), 460 (2-25), 461 (2-6), and Norman Lehrer; joint trial exhibit numbers 21, 30, 31, 32-41, 43-70, Plaintiff's exhibit number 98).

12. Plaintiff performed all of his obligations under the March 8, 1978 agreement. (Testimony of Raymond Boyd).

13. During the summer of 1979 other companies began to sell the folding illuminated mirror case of plaintiff's invention without the cam on-off switch. (Testimony of Raymond Boyd, Edward Sacks, Deposition page and line nos. 144 (16-23), 146 (11-22), 148 (14-24), 158 (21-25), 159 (2-7), 364 (21-25), 365 (11-13), and Dohn Schildkraut, Deposition page and line nos. 161 (20-25), 163 (17-22), 520 (7-25), 521 (2-13), 542 (11-17); joint trial exhibit numbers 4, 11, 16, 17, 36 and 77).

14. After October 26, 1979 defendants refused to pay royalties under the 1978 agreement. As a result of such refusal and plaintiff's lack of means to litigate under the

1978 agreement plaintiff entered into negotiations to settle the dispute which negotiation resulted in a second agreement dated March 1, 1980. (Testimony of R. Boyd, Deposition pages 241-250, 257-285, 376-382, E. Sacks, Deposition page and line nos. 172 (16-18), 174 (14-17), 260 (9-17) and D. Schildkraut, Deposition page and line nos. 158 (5-25), 159 (4-25), 161 (4-25), 162 (3-25), 163 (3-22), 438 (10-25), 439 (5-25), 440 (2-6), 517 (11-25), 518 (2-16); N. Lehrer); joint trial exhibit numbers 1-11, 13, 71, 72, 73 and 74).

15. the negotiations for the second agreement were made on behalf of plaintiff by his attorney. (Testimony of N. Lehrer and R. Boyd, Deposition pages 246-250, 257-285; joint trial exhibits numbers 1-10, 13).

16. In the course of the negotiations for the March 1, 1980 agreement the parties decided to base the royalties to be paid plaintiff on the subject matter of plaintiff's United States design patent *application* rather than on plaintiff's entire invention which was the subject matter of the 1978 agreement. However, plaintiff would not sign the agreement which was based on the United Stats design patent application unless plaintiff was assured that the defendants had not offered a lighted mirror or compact for sale more than one year prior to the filing of said application, which offer for sale would prevent the issuance of a patent on the pending design patent application. (Testimony of Norman Lehrer and Raymond boyd, Deposition pages 246-250, 257-285; joint trial exhibit numbers 1-10, 13, 14-19, 72-75).

17. During the course of negotiations for the March 1, 1980 agreement defendants informed plaintiff's attorney that they had not sold, offered for sale or publicly used or displayed the lighted compact which was the subject of the design patent application prior to September 1, 1978.

(Testimony of Norman Lehrer; joint trial exhibit number 13).

18. Furthermore, at the time that the design patent application was prepared defendants represented to plaintiff's attorney that they had not sold, offered for sale or publicly used or displayed the lighted compact prior to August 13, 1978. As a result of such representation, plaintiff filed said design patent application containing an oath that he was not aware of any sale, offer for sale or public use of display of his lighted compact prior to August 13, 1978. (Testimony of Norman Lehrer; exhibit numbers 1-10, 13).

19. Plaintiff relied on defendents' representation that they had not sold, offered for sale, or publicly used or displayed the lighted compact prior to September 1, 1980 as a material inducement into entering the March 1, 1980 agreement. Defendants were aware that said representation was false and that they were fraudulently inducing plaintiff into entering the agreement making the first agreement null and void. (Testimony of Raymond Boyd, Deposition pages 98, 100, 106, 107, 116-419, 121, 130, 133, 134, 147, page 214 lines 11-25, pages 215-217, 220-227, 257-85, 343-350, Norman Lehrer, Edward Sacks, Deposition page and line nos. 112 (4-9), 113 (10-12), 271 (17-25), 277 (15-25), 278 (6-8), 314 (5-11), 315 (6-16), 340 (4-25), 341 (2-25), 342 (2-23), 343 (14-21), 345 (5-11), and dohn Schildkraut, Deposition page and line nos. 79 (18-25), 80 (2-25), 81 (2-25), 82 (2-25), 83 (2-25), 84 (2-25), 85 (2-23), 88 (14-25), 440 (18-25), 441 (2-18), 442 (5-24); joint trial exhibit numbers 1-13, 71-77).

20. Defendants have failed to perform their obligations under the first agreement, have withheld royalties to plaintiff under the first agreement, and have not complied with the termination provisions thereof. (Testimony of Raymond Boyd, Deposition pages 241-250, 284-292, 276-382, Gloria

Boyd and Norman Lehrer; joint trial exhibit numbers 1-11, 13, 20, 20A, 20B, 23, 30-51, 53-67, 70).

21. Nothwithstanding the fact that plaintiff contends that the second agreement is null and void, defendants have failed to perform their obligations under the second agreement in that they have withheld royalties due plaintiff under the second agreement. (Testimony of Raymond Boyd, Deposition pages 314-320, Gloria Boyd and Norman Lehrer; joint trial exhibit numbers 1-5, 13, 20, 20A, 20B, 30-51, 64, 70, 76, 77).

22. Notwithstanding the fact that the first agreement was never terminated, assuming *arguendo* that defendants had properly complied with the provisions terminating the agreement as of August 31, 1980, defendants continued after August 31, 1980 and continue to date to utilize plaintiff's invention disclosed to them pursuant to the first agreement and have sold and continue to sell folding automatically illuminated mirror cases embodying plaintiff's invention. As a result of defendants' failure to pay royalties they have been and continue to be unjustly enriched to plaintiff's detriment. (Testimony of Raymond Boyd, Edward Sacks, Deposition page and line nos. 79 (18-25), 80 (2-25), 81 (2-25), 82 (2-25), 83 (2-25), 84 (2-25), 85 (2-23), 88 (14-25), 440 (18-25), 441 (2-18), 442 (5-24), and Dohn Schildkraut, Deposition page and line nos. 171 (18-25), 172 (2-25), 233 (4-12), 299 (3-25), 330 (2-20), 357 (12-19), 259 (17-25), 260 (2-13); joint trial exhibit numbers 23, 29, 40, 41, 53-67, 70, 77).

23. Up until December 31, 1982 defendant Schildkraut has sold $12,106,966 of lighted mirror cases which were marked with U.S. Patent No. 4, 126, 145 and are subject to royalty provisions of the first agreement. Up until December 1981, defendant D & E has sold approximately $603,000 of lighted

mirror cases which were marked with U.S. Patent No. 4,126,145 and are subject to the royalty provisions of the first agreement. (Testimony of Dohn Schildkraut, Raymond Boyd and Gloria Boyd; joint trial exhibit numbers 20, 20A, 20B, 23, 30-51, 53-67, 70, 77; Plaintiff Exhibit Nos. 102, 103, Deposition of Dohn Schildkraut pp. 283-86).

24. Pursuant to the first agreement plaintiff should have been paid in excess of $604,278 but was only paid $169,779.57 thereby making the amount due plaintiff from defendants in excess of $434,499 plus interest. (Testimony of Raymond Boyd Deposition pages 84, 88, 94, 106-108, 114-115, 133, 135, 147-149, 150, 164-166, 168-170, 179-182,190, 197-198, 211-212, 229, 231, 238, 376 and Gloria Boyd; joint trial exhibit numbers 20, 20A, 20B, 23, 30-51, 53-67, 70, 77).

25. Defendants have intentionally withheld the payments due plaintiff and fraudently induced plaintiff into entering into the second agreement thereby making this an exceptional case entitling plaintiff to punitive damages and attorneys' fees. (Testimony of Raymond Boyd, Deposition pages 241-250, 257-285, 376-382, Dohn Schildkraut, Deposition page and line nos. 79 (18-25), 80 (2-25), 81 (2-25), 82 (2-25), 83 (2-25), 84 (2-25), 85 (2-25), 88 (14-15), 158 (5-25), 159 (4-25), 161 (4-25), 163 (3-25), 168 (2-25), 269 (2-25), 170 (2-25), 171 (2-25), 172 (2-25), 173 (2-25), 175 (2-25), 176 (2-25), 177 (2), 242 (2-25), 243 (3-25), 252 (2-25), 253 (2-17), 254 (2-25), 255 (2-25), 256 (2-25), 257 (2-25), 438 (10-25), 439 (5-25), 440 (2-6 & 18-25), 441 (2-18), 442 (5-24), 517 (11-25), 518 (2-16), and Edward Sacks, Deposition page and line nos. 112 (4-9), 113 (10-12), 171 (18-25), 172 (2-25), 174 (14-17), 233 (4-12), 260 (9-17), 271 (17-25), 277 (15-25), 278 (6-8), 299 (3-25), 330 (2-20), 314 (5-11), 315 (6-16), 340 (4-25), 341 (2-25), 342 (2-23), 343 (14-

321), 345 (5-11), 357 (12-19), 359 (17-25), 360 (2-13); joint trial exhibit numbers 20, 20A, 20B, 23, 30-51, 53-67, 70, 77).

DEFENDANTS' PROPOSED COUNTER FINDINGS OF ULTIMATE FACT

1. Boyd and D & E entered into a written agreement dated March 8, 1978 to expire on August 31, 1980, by which Boyd gave D & E a license to produce, manufacture, and sell a certain "Invention" consisting of a folding mirror case containing an electrical and lighting invention embodied in a ladies compact in a patent application filed by plaintiff on March 11, 1977 and as later set forth in Letters Patent issued to plaintiff on November 21, 1978, No. 4123145. (Jt. Exs. 12 and 78).

2. The 1978 Agreement also provided that it was to be renewed annually after August 31, 1980 unless notice of intent not to renew was given at least thirty days before the end of the contract term. (Jt. Ex. 78).

3. By letter dated November 7, 1979, D & E notified Boyd that D & E would not renew that 1978 Agreement and that it would expire on August 31, 1980. Boyd has conceded that he understood said letter to be notification of termination of the 1978 Agreement. (Jt. Ex. 11; deposition of Raymond Boyd, pages 372-374).

4. After the receipt by Boyd of the letter of November 7, 1979, his attorneys negotiated a new agreement with the attorneys for defendants which was reduced to writing, dated March 1, 1980, and signed by Boyd and both defendants. (Jt. exs. 10, 18, 72, 73; testimony of Sacks, not in deposition; testimony of Schildkraut, deposition pages 160 to 163).

5. The 1980 Agreement provided that the March 8, 1978 Agreement was terminated as of January 1, 1980. (Jt. Ex. 18).

6. The 1980 Agreement also provided that net sales of lighted mirror cases which began after September 1, 1978 and until September 30, 1979 came to approximately $1,650,000; that net sales from October 1, 1979 to December 31, 1979 were approximately $2,000,000; and that Boyd was to be paid a royalty of 2-1/2 percent of net sales of lighted mirror cases sold between October 1, 1979 to December 31, 1979, but not less than $45,000 (Jt. Ex. 18).

7. The 1980 Agreement also provided that Boyd was to be paid a royalty of 2-1/2 percent of the net sales of lighted mirror cases embodying the design for which Boyd had applied for a design patent (Jt. Ex. 18).

8. The 1980 Agreement also provided that defendant had the right to sell lighted mirror cases of the design set forth in Boyd's design patent application without being obligated to pay royalties therefor, if his design patent application was held invalid or rejected, or if a design patent had not been issued to Boyd by August 10, 1980 (Jt. Exs. 10, 14, 18, 72, 73 and 75).

9. by the terms of the March 1, 1980 Agreement, Boyd is not entitled to any royalties under the March 8, 1978 Agreement as the result of any sales made on and after January 1, 1980 (Jt. Ex. 18).

10. Boyd is not entitled to any royalties under the March 1, 1980 Agreement as the result of any sales made after August 10, 1980 (Jt. Ex. 18; Agreed Finding of Fact 10).

11. In the months of June, July and August 1978 and thereafter, Boyd was informed and knew that products containing his invention were advertised for sale by the circulation of an advertising circular in June 1978 and

thereafter and that orders for the purchase of the same were received by Schildkraut in June, July and August 1978 and thereafter. (Jt. Ex. 76; deposition of Boyd, page 99, 100, 123-130 and 348; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85).

12. On August 15, 1978 Boyd attended a Trade Show at the coliseum at Columbus Circle, New York, New York at which he san an advertising circular of Schildkraut and lighted mirror cases containing his invention produced for defendants, displayed for sale to the trade. (Deposition of Boyd, pages 99, 100, 123-130 and 348; testimony of Sacks, deposition pages 115, 116, 273, 274; testimony of Schildkraut; deposition pages 74, 75, 76; testimony of Medoff, no deposition).

13. On August 6, 1979 when Boyd executed his design patent application subsequently filed on August 13, 1979, he knew that the lighted mirror cases of the design described in that application had been the subject of an advertising circular distributed before August 6, 1978 and that orders for the purchase of said lighted mirror cases had been placed with Schildkraut before August 6, 1978 (Jt. Ex. 76; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85).

14. Boyd's application for a design patent was not eligible for Letters Patent for the further reasons that he was not the originator of the design; that the design had a functional use; and that the design was not of sufficient uniqueness to entitle Boyd to Letter Patent thereon. (Jt. Exs. 14 and 75; testimony of Sacks, deposition pages 60, 61, 134, 135, 139, 141 to 145, 222, 223, 228; testimony of Schildkraut, deposition pages 102 to 105, 108, 109, 113 to 119, 123 to 126,

164, 165; testimony of Edmund Young, Mickey Schildkraut, Meyer Gross, no depositions as to the last three named individuals.

15. The statements contained paragraph 2 of the 1980 Agreement as to the marketing of the lighted mirror cases before September 1, 1978 do not constitute a material representation for the reasons that the design patent application of Boyd has been filed almost six months earlier, all of the facts as to the marketing of lighted mirror cases before September 1, 1978 were previously known to Boyd and his attorney, while the facts as to the same did not change; and for the further reasons that boyd was not the originator of the design and the design was not of sufficient uniqueness to entitle Boyd to Letters Patent thereon (Jt. Exs. 14 & 75; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85; testimony of Edmund Your, Mickey Schildkraut and Meyer Gross, no depositions as to the last three named individuals.

16. At the time of the execution of the March 1,. 1980 Agreement and prior thereto, Boyd knew that lighted mirror cases had been "on sale" prior to September 1, 1978 and for this reason was not induced by the statement contained in paragraph 2 of the 1980 Agreement to enter into said Agreement. As a result, plaintiff is not entitled to rescind said Agreement. (Jt. Ex. 76; Deposition of Boyd, pages 99, 100, 123-130 and 349; testimony of Sacks, deposition pages 112 to 116, 371 to 274, 277, 277 to 279, 348 to 351: testimony of Schildkraut, deposition pages 81 to 85).

17. Total net sales of lighted mirror cases by D & E and Schildkraut in 1978 and 1979 did not exceed $3,223,868.20. The royalties claimed by Boyd under the 1978 Agreement as modified by the 1980 Agreement cannot exceed $146,626.84

of which he was paid $146,965.45. (Agreements of March 8, 1978 and March 1, 1980 - Jt. Exs. 78 & 18; Jt. Exs. 20, 20(a), 24, 48, 49; testimony of Sacks, deposition pages 95, 96, 107, 109, 159, 160; testimony of Schildkraut, pages 40, 41, 42, 372 to 406, 468, 469).

18. Total net sales as defined in the Agreement of March 1, 1980 from January 1 to August 10, 1980 were $1,513,890.67. Total royalties payable to Boyd from January 1, to August 10, 1980 did not exceed $37,849.25, of which Boyd was paid $22,285.91 (Jt. Ex. 18, 20; plaintiff deposition of Schildkraut Exhibit 10-A; testimony of Sacks not found in deposition; testimony of Schildkraut, deposition pages 406 to 410, 413 to 423, 468, 469).

19. As to paragraph numbered 9 of the plaintiff's Proposed Findings of Fact, pargagraph numbered "8" of plaintiff's Proposed findings of Fact set forth in the Pre-trial Order of December 22, 1982 concedes that "Since only plaintiff's cam on-off switch was protected by a patent the public was free to copy plaintiff's folding illuminated mirror case as long as it did not use the particular cam on-off switch". (Pre-Trial Order dated December 22, 1982).

DEFENDANTS' ADDITIONAL PROPOSED FINDINGS OF ULTIMATE FACT AS TO AFFIRMATIVE DEFENSES AND COUNTERCLAIMS:

1. *As to the Second Affirmative Defense,* the Agreement of March 1, 1980 terminated the Agreement of March 8, 1978 as of January 1, 1980 and all sums agreed to be paid to Boyd as royalties for the sale of lighted mirror cases prior to January 1, 1980 were paid. (Jt. Ex. 18; testimony of Sacks and Schildkraut, not in depositions).

2. *As to the Third Affirmative Defense,* disputes arose between Boyd and D & E under the Agreement of March 8,

1978, and were settled by the Agreement of March 1, 1980, pursuant to which all sums to be paid to Boyd as the result of sales prior to January 1, 1980 were paid. (Jt. Ex. 18; testimony of Sacks, deposition pages 160 to 165, 170 to 172, 246 to 249; testimony of Schildkraut no found in depositions).

3. *As to the Fourth Affirmative Defense,* Boyd received payments under the March 1, 1980 Agreement in March and April 1980 with knowledge that lighted mirror cases of the same design as referred to in the Agreement had been displayed and offered for sale by Schildkraut before September 1, 1978, and is therefore estopped from claiming any right to rescind the March 1, 1980 Agreement. (Jt. Ex. 76; deposition of boyd, page 11, 100, 123-130; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85; testimony of Medoff, no deposition).

4. *As to the Fifth Affirmative Defense,* if paragraph 2 of the March 1, 1980 Agreement is held to constitute a material representation as plaintiff claims, plaintiff by his attorney insisted on the language of paragraph 2 of the March 1, 1980 Agreement for the sole purpose of estopping defendants from protesting plaintiff's design patent application on the ground that the "lighted compact" had been "on sale" before August 13, 1978, although plaintiff was fully aware that lighted mirror cases of the same design had been "on sale" before September 1, 1978 and before August 13, 1978. (Jt. Exs. 14, 75, 76; deposition of Boyd, pages 99, 100, 123-130 and 348; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85).

5. *As to the Sixth Affirmative Defense,* if paragraph 2 of the March 1, 1980 Agreement is held to constitute a material

representation as plaintiff claims, its purpose was to conceal the fact that the "lighted compact" described in the design patent application had been "on sale" prior to August 13, 1980, and thereby Boyd intended to commit a fraud on the United States Patent and Trademark Office. (Jt. Exs. 13, 14, 75, 76; deposition of Boyd, page 99, 100, 123-130 and 348; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85).

6. *As to the Seventh Affirmative Defense,* plaintiff was not induced to enter into the Agreement of March 1, 1980 on the ground of any material representation claimed to have been made in paragraph 2 of the Agreement because plaintiff knew that lighted mirror cases of the same design had been displayed and offered for sale on or about August 16, 1978 and prior thereto and, therefore, plaintiff did not reply on any such claimed representation. (Jt. Ex. 76; deposition of Boyd, page 99, 100, 123-130 and 348; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85).

7. As to the Eighth Affirmative Defense, if the statement contained in paragraph 2 of the March 1, 1980 Agreement were held to be a material representation, plaintiff did not rely thereon in entering into said Agreement because he knew that defendant had displayed lighted mirror cases and offered them for sale prior to September 1978, so that plaintiff's purpose was to defraud the United States Patent and Trademark Office. (Jt. Ex. 76; deposition of Boyd, pages 99, 100, 123-130 and 348; testimony of Sacks, deposition pages 112 to 116, 271 to 274, 277 to 279, 348 to 351; testimony of Schildkraut, deposition pages 81 to 85; testimony of Medoff, no deposition).

AS TO THE FIRST COUNTERCLAIM

8. Plaintiff was paid the sum of $67,285.91 pursuant to the Agreement of March 1, 1980. If that Agreement is held to be rescinded, defendants are entitled to restitution in that amount from plaintiff. (Testimony of Sacks and Schildkraut not found in depositions; Jt. Exs. 20(b), 30, 35, 46).

AS TO THE SECOND COUNTERCLAIM

9. The March 8, 1978 agreement that royalties to Boyd would be computed on the net sales price actually received by D & E, less discounts, credits, returns and allowances. (Jt. Ex. 18).

10. In or about April or May 1978 with the knowledge of Boyd, D & E made arrangements with Schildkraut under which Schildkraut would market the lighted mirror cases containing the lighting device for which Boyd had applied for Letters Patent. In error, the royalties to Boyd under the March 8, 1978 Agreement were computed on the net sales prices of Schildkraut to its customers, instead of on the net sales prices from D & E to Schildkraut. As a result, royalties to Boyd were incorrectly computed and should have ben computed on the lower price charge by D & E to Schildkraut or the reasonable value thereof. (Testimony of Sacks, deposition pages 174, 175, 249, 250; testimony of Schildkraut, deposition pages 36, 37, 56 to 58, 212, 214, 215, 220, 221 to 229, 237, 401 to 406).

11. From September 1978 to December 1979 inclusive D & E's price to Schildkraut for each lighted mirror case was $4.20 plus a 20 cent royalty, commission or profit. The total number of lighted mirror cases turned over to Schildkraut to September 30, 1979 and sold by it was 202,729, so that the amount of royalties payable to Boyd should have been the sum of $62,440.49. (Testimony of Sacks, deposition pages 122 to 124, 249 to 252, 284 to 289, 373, 380 to

388, 411 to 416; testimony of Schildkraut, deposition pages 212 to 215, 220 to 229, 237; Jt. Ex. 20).

12. D & E is entitled to a refund from boyd under the March 8, 1978 Agreement of at least $39.524.96. (Testimony of Sacks and Schildkraut not in depositions.

JOINT TRIAL EXHIBITS

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
1. Copy of letter of 8/14/80 from Jacob Trachtman to Wishod & Fisch	B0007	Deft. B3
2. Copy of letter dated 5/28/80 from Edward Blumstein to Edward Sachs	B013	_____
3. Copy of letter dated 4/30/80 from Norman Lehrer to Stanley Yavner	B017	_____
4. Copy of letter and agreement dated 4/40/79	B018-020	_____
5. Copy of letter dated 4/11/80 from Norman Lehrer to Stanley Yavner	B021	_____
6. Letter dated 4/11/80 from Norman Lehrer to Stanley Yanver amending the 3/1/80 agreement	B022-024	_____

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
7. Copy of letter dated 3/28/80 from Norman Lehrer to Stanley Yavner	B025-026	_____
8. Copy of letter dated 3/27/80 from Norman Lehrer to Jerome Fisch	B027	_____
9. Copy of letter dated 3/27/80 from Norman Lehrer to Jerome Fisch	B030-031	Deft. U
10. Copy of letter dated 1/30/81 from Norman Lehrer to Jerome Fisch	B033-036	Deft. Q
11. Copy of letter dated 11/7/79 from Edward Sacks to Raymond Boyd	B042-044	Deft. N
12. Copy of letter agreement dated 12/22/77	B049-050	Deft. A
13. File of Norman Lehrer	B052-B185	

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
14. Papers filed in the Design Patent application of Raymond Boyd Ser. No. 06/065884 (Design)	B186-191	Deft. L B199-231
15. Copy of letter date 1/11/80 from Norman Lehrer to Jerome Fisch	B052A	
16. Requirement for information and Decision returning application for examination dated 6/13/80 from the U.S. PTO	B244-250	_____
17. Official Action dated 12/15/80 on U.S. pat. appln D065884	B251-253	_____
18. Agreement dated 3/1/80	B544-552	Deft P
19. Letter dated 4/28/80 from Stanley Yavner to Norman Lehrer	B562-566	_____

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
20. Look-a-Lite sales reports	B585-608	including Deft. O,E,F,G,M,I,K M,N,X,Y,Z
20 (a) Look-a-Lite sales reports		Schildkraut 4
20 (b) Look-a-Lite sales reports Jan. 1980		
21. Copy of letter dated 9/20/80 from Stanley Yavner to Jacob Trachtman	B616-622	
22. Letter dated 1/25/77 from Raymond Boyd to Richford American Corporation	E0001	
23. Schildkraut catalog dated 8/81		Sh. Deposition Exhibit #47

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
24. Ed Sacks' folder showing Look-a-lite sales from 12/78 through 12/79		Sachs 3
25. Drawing entitled upper tray		Sachs 4 (Production #B582)
26. Drawing entitled middle tray		Sachs 5 (Production #B583)
27. Drawing entitled lower tray		Sachs 6 (Production #B584)
28. U.S. Patent No. 4,126,145		Sachs 7 (Production #B195)
29. Telex from Edmond Young dated 6/5		Sachs 8
30. List of "Ray Boyd payments"		Sachs 9

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
31. Box, bag, mirror case and instruction sheet for Lite-Fantastik		Sachs 10, 10A, 10B and 10C
32. Computer printout for 12/81 of Lite-Fantastik sales		Sachs 11
33. Document dated 11/30/81 entitled "November Royalties"		Sachs 13
34. Look-a-Lite sales report		Sachs 14
35. Royalty statement-Mo. 1/80		Sachs 15
36. "Knock Off" lighted mirrorcase, bag and instruction sheet		Sachs 16, 16A, 16B and 16C
37. Draft of 3/1/80 agreement containing Jerome Fisch's notes		Schildkraut 46

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
38. Computer printout for 1/82 for Look-a-Lite sales		Schildkraut 45
39. Computer printout for 11/81 for Look-a-Lite sales		Schildkraut 44
40. Computer printout for sales of Look-a-Lite for 10/81		Schildkraut 43
41. Computer printout for year end 1981 dated 12/28/81		Schildkraut 23
42. List of bulbs and batteries received and returned		Schildkraut 40 and 40A
43. "Action today now" attaching a worksheet for a prospective source from Montgomery Ward		Schildkraut 38

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
44. Letter from Michael Nadley Company to D&E Trading Corp. dated 5/19/80 with Ed Sachs' handwritten notes		Schildkraut 38
45. Royalty report dated 8/18/80 addressed to Raymond Boyd		Schildkraut 36
46. Royalty report dated 7/17/80 addressed to Raymond Boyd		Schildkraut 35
47. Copy of a check dated 4/11/80 and a letter to Jerome fisch from Dohn Schildkraut		Schildkraut 32
48. 10/31/79 Look-a-Lite sales report		Schildkraut 31
49. Look-a-Lite sales report dated 6/28/79		Schildkraut 29
50. Letter dated 10/23/80 and attachment		Schildkraut 26

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
51. Official Action dated 6/26/80		Schildkraut 25
52. Patent application for illuminated compact switch made by Dohn Schildkraut		Schildkraut 24
53. Scallop shaped lighted mirror case		Schildkraut 21
54. Look-a-Lite model #685		Schildkraut 21
55. Look-a-Lite model #684		Schildkraut 20
56. Look-a-Lite model #657		Schildkraut 19
57. Look-a-Lite model #656		Schildkraut 18
58. Look-a-Lite model #650		Schildkraut 17
59. Look-a-Lite model #647		Schildkraut 16

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
60. Look-a-Lite model #646		Schildkraut 15
61. Look-a-Lite model #645		Schildkraut 14
62. Look-a-Lite model #632		Schildkraut 13
63. Look-a-Lite model #624		Schildkraut 12
64. Computer printout for year 1980 for model 624		Schildkraut 10A-G
65. Sears' lighted mirror compact model #9537		Schildkraut 9A and 9B
66. Sears' lighted mirror compact model #9536		Schildkraut 8A and 8B
67. Sears' lighted mirror compact model #9534		Schildkraut 7A and 7B

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
68. Advertisement showing lighted mirror case		Schildkraut 2
69. Lord & Taylor advertisement showing a lighted mirror		Schildkraut 1
70. Boxes/invoices		
71. Copy of Duffield & Lehrer letter dated February 26, 1980	B037 and B073	Def. R
72. Copy of Duffield & Lehrer letter dated March 10, 1980	B029	Def. S
73. Copy of Duffield & Lehrer letter dated March 10, 1980	B032	Def. T
74. Copy of Blumstein, Block and Vanore letter dated April 30, 1980	B016	Def. W

Description	*Plaintiff's Ident. #*	*Deposition Ex. #*
75. File history of Boyd's Design Patent Application	B254-B531	(?)
76. Schildkraut Giftware Corporation circular	None	Def. C
77. All Transcripts of the examination of Raymond Boyd, Dohn Schildkraut and Edward Sacks	None	None
78. March 8, 1978 Agreement	B532-543	Deft B
78.(A) Affidavit of Frank Conte		
78.(B) Computer Printouts for Sept-Dec 1981 Schildkraut sales of lighted mirror cases		

THE FOLLOWING EXHIBITS TO BE OFFERED
BY PLAINTIFF ARE DISPUTED BY DEFENDANTS

Description of Exhibit	*Identification*	*Nature of Objection*	*Federal Rule*
79. Taped mirror used		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
80. String of light bulbs used in the development of the Ray-Glow compact		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
81. Model of the outside case made in the course of the development of the Ray-Glow compact		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
82. Round brass case made in the course of the development of the Ray-Glow compact		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)

Description of Exhibit	*Identification*	*Nature of Objection*	*Federal Rule*
83. Letter from Gordon E. Kaye to Raymond Boyd Associates dated October 5, 1977	Plaintiff's production No. E0028	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
84. Quality Mold Corporation Quotation dated September 27, 1977	Plaintiff's production No. E0029	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
85. Business card of James J. Callahan	Plaintiff's production No. E0030	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
86. Check dated August 13, 1976 William Tanguay Tanguay	Plaintiff's production No. E0031	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)

Description of Exhibit	*Identification*	*Nature of Objection*	*Federal Rule*
87. Check dated November 17, 1976 to Wonderful Things	Plaintiff's production No. E0032	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
88. Check dated April 2, 1977 to Cohan Epner	Plaintiff's production No. E0033	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
89. Letter Quotation dated September 14, 1977 from Hylie Products Inc.	Plaintiff's production No. E0034 and E0035	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
90. Letter dated March 5, 1976 from Raymond Boyd to Ellisco Inc.	Plaintiff's production No. E0036	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)

Description of Exhibit	*Identification*	*Nature of Objection*	*Federal Rule*
91. Drawing entitled Terminal Holder dated June 15, 1977	Plaintiff's production No. E0037	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
92. Drawing entitled Lighted Purse Mirror Preliminary Drawing dated March 28, 1978	Plaintiff's production No. E0038	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
93. Drawing entitled Battery Holder dated March 12, 1978	Plaintiff's production No. E0039	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
94. Drawing entitled Mirror Tray	Plaintiff's production No.	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)

Description of Exhibit	*Identification*	*Nature of Objection*	*Federal Rule*
95. File history for application Serial No. 657410 filed February 12, 1978 by Raymond Boyd et al	Plaintiff's production No. E0041	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
96. Gloria Boyd's compilation of Schildkraut invoice sales (attached to letter of March 12 from ADM to JF)		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
97. Documents showing Credits, Returns and Allowances		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
98. Letter dated April 4, 1980 from Dohn Schildkraut to Jerome Fisch.		Relevance,	402, 403, 901(a) &(b)(1)

Description of Exhibit	*Identification*	*Nature of Objection*	*Federal Rule*
99. Letter dated September 20, 1979 from Stanley Yavner to Dohn Schildkraut.		Relevance	402, 403, 901(a) &(b)(1)
100. 1979 drawings of Illuminated Compact	B579-581	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
101. Letter dated Dec. 14, 1977 from Robert Tobin to Ray Boyd	F0001	Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
102. Receipt from John Wanamaker dated June 17, 1982 for "Jewel Boxes, $15.00"		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)
103. Lighted Mirror case and box purchased on June 17, 1982 per ex. 102		Relevance, Authentication and Identification	402, 403, 901(a) &(b)(1)

Description of Exhibit	*Nature of Objection*	*Federal Rule*
104. Joint Exhibits 20,20(a), 20(b),32,34,38,39,40,41, 48 and 64 and 78(B)	As per Court's Decision, only those sales reflecting plaintiff's patent of November 21, 1978 and those sales falling under March 1, 1980 Agreement are relevant.	402, 403, 901(a) &(b)(1)

TYPE OF TRIAL
and
ESTIMATED LENGTH

1. Plaintiff has made a demand for trial by jury.

2. The parties estimate that it will take 23 trial days to present their cases and cross examine the witnesses.

Dated: New York, N.Y.

May 13, 1983

ARTHUR, DRY & KALISH P.C.

By /s/ANDREW D. MASLOW
Andrew D. Maslow
1230 Avenue of the Americas
New York, New York 10020
(212) 489-4510

LAW OFFICES OF JEROME FISCH

By /s/BERNARD WEITZMAN
Bernard Weitzman
1515 Broadway
New York, New York 10036

SO ORDERED

DATED: New York, NY

Henry F. Werker
U.S.D.J.

UNITED STATES DISTRICT COURT
Southern District of New York

81 Civ. 1896 MJL

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORP., ET AL.

Defendants.

ORDER

LOWE, J.

After conference the Court rules that the only viable claim in this case is for royalties due on exploitation by defendants of mechanical patent, subject of 1978 agreement. (N.B. Judge Werker decided on plaintiff's Rule 56 motion that the 1978 agreement was only a patent license agreement, therefore no construction of claim or trade secrets are herein involved.

Plaintiff will either settle with defendants or have an accounting of royalties claimed due. Parties will send a joint letter re resolution on or before September 15, 1984.

So ordered.

New York, New York
Dated: July 16, 1984

/s/ MARY JOHNSON LOWE
U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

ORDER OF REFERRAL
TO U.S. MAGISTRATE

IT IS HEREBY ORDERED that the above captioned matter be referred to United States Magistrate Raby, as assigned by the Administrative Magistrate, for the following purpose:

For an accounting between parties of the royalties paid or due and owing.

/s/ MARY JOHNSON LOWE
MARY JOHNSON LOWE
United States District Judge

DATED: NEW YORK, NEW YORK
October 5, 1984

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 (MJL)

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

MEMORANDUM AND ORDER

RABY, UNITED STATES MAGISTRATE:

On January 23, 1985, by direction of Judge Lowe, I commenced an evidentiary hearing for the purpose of determining the balance, if any, due and payable to plaintiff by defendants, of royalties to which plaintiff is entitled by virtue of two prior written agreements with the defendants.

In the course of that hearing, counsel for the plaintiff offered in evidence, as plaintiff's exhibit 106 -- presumably for the purpose of demonstrating that the plaintiff had not been fully credited for sales by defendants of merchandise

which might be subject to royalty payments -- a purported listing of defendants' billings, identified by invoice number and amount. Although I admitted that document into evidence, I nevertheless directed -- in view of the fact that opposing counsel had not previously seen this exhibit -- that defendants be given an opportunity, subsequent to the close of the hearing, to submit, if appropriate, an affidavit indicating any inaccuracies in the listings contained in the abovementioned exhibit.

That ruling was made at a time when I had been given to understand that the above-described hearing in this case would be completed not later than the end of January, 1985. However, it later appeared, first, that counsel in this case had badly underestimated the time for the completion of the hearing, and secondly, that by reason of prior commitments of counsel in this case, the hearing could not be resumed, following its adjournment on Friday, January 25th, until March 9, 1985.

That being the case, it is inappropriate for me to adhere to the ruling under which I afforded counsel for the defendants a "post-hearing" opportunity to rebut (without the possibility of cross-examination) the contents of plaintiff's exhibit 106. It is accordingly directed that any testimony or evidence which defendants may wish to present in rebuttal of the contents of exhibit 106, must be presented in the course of the resumed hearing, now scheduled to commence on March 9, 1985.

It is further directed, in view of an announcement made by defendants' counsel of their intention to call an expert witness in this case upon the resumption of this hearing on March 9th, that counsel for the plaintiff, who has previously retained the services of a court reporter herein, arrange to have the transcript of the proceedings previously held

available to me prior to the resumption of this proceeding on March 9th, to the end that I can be certain that any opinions expressed by said expert are based on testimony and evidence of record.

IT IS SO ORDERED.

Dated: New York, New York
January 28, 1985.

/s/ HAROLD J. RABY
HAROLD J. RABY
UNITED STATES MAGISTRATE

CC: FELFE & LYNCH, ESQS.
805 THIRD AVENUE
NEW YORK, NEW YORK 10022
ATT: ALfred H. Hemingway, Jr., Esq.

Jerome Fisch, Esq.
415 Madison Avenue
New York, New York 10017
Att: Bernard Weitzman, Esq.

Philip M. French, Esq.
51 Bank Street
Stamford, Connecticut 06901

The Hon. Mary Johnson Lowe
United States District Judge
United States Court House
Foley Square
New York, New York 10007

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

REPORT OF HAROLD J. RABY
UNITED STATES MAGISTRATE

TO THE HONORABLE MARY JOHNSON LOWE,
UNITED STATES DISTRICT JUDGE:

By order dated October 5, 1984 and filed in Court October 10, 1984, you referred this case to me, as a Magistrate of this Court, for evidentiary hearing and ultimate report and recommendation as to the amount, if any, of royalties due from defendants to plaintiff pursuant to a patent license agreement heretofore entered into between the parties on March 8, 1978. Having conducted such hearing on

January 23rd, 24th and 25th, and on april 15th and 16th, 1985, and having received and considered the post-hearing submissions of counsel, I submit to you herewith my Report.

FACTUAL BACKGROUND

Stated as concisely as possible, the plaintiff, an inventor, who then had pending with the U.S. Patent Office an application for a mechanical patent for a self-illuminating female compact device -- a patent which ultimately issued on November 21, 1978 (Tr. 46*) -- entered into a patent licensing agreement with the defendants** on March 8, 1978, covering a period ending on August 1980 (Tr. 41-46; Joint Trial Exhibit 28), under which plaintiff agreed as follows:

> "Boyd hereby grants and conveys unto D & E the exclusive right and license to produce, manufacture, distribute, sell, market, use, and otherwise exploit and commercialize

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* The symbol "Tr." constitutes a reference to the transcript of the evidentiary hearing held by me.

** Although the original designated licensee in the agreement was defendant D & E Trading Corporation, the principal of which was one Edward S. Sacks, it appears incontestable that the obligations as well as the rights under the license agreement were thereafter assumed in equal part by the other corporate defendant herein, Schildkraut Giftware Corporation in which Mr. Sacks thereafter acquired a 50% stock ownership as well as being involved in the active management thereof. According, it seems clear that whatever liability here exists must be shared jointly by Schildkraut and D & E.

> the Invention and all patents that may be issued thereon, and all additions, improvements, modifications, extensions and developments thereof, including all other products and items which may hereafter be developed or invented, incorporating or using any of the salient features of the invention or any of the ideas, concepts or claims set forth in the Patent Application, and any amendments thereof, or in any patent that may hereafter be issued to the Patent Application (hereafter referred to as the "Other Products")." (Agreement, ¶2).

In consideration of the above, the defendant agreed to pay Boyd royalties, in percentages described in the agreement, on the net sales by defendants of "the Invention and Other Products" less discounts, credits, returns and allowances. (Agreement, ¶7).

Royalties were in fact paid pursuant to the above-mentioned March 1978 agreement until approximately October 1979, at which time the payments were stopped. Royalty payments were, however, thereafter resumed in or about March 1980 based on reported sales for the period from October 1979 through March 1980. Those renewed payments appear, however, to have been made under the terms of a superseding agreement, dated March 1, 1980 and signed by Boyd, D & E and Schildkraut, under which continued royalty payments to Boyd were agreed to, albeit at a substantially reduced rate and conditioned upon Boyd's fulfilling a commitment to defendants to obtain a design patent for which he was applying to the U.S. Patent Office. (Joint Trial Exhibit 18.)

Because of plaintiff's subsequent inability to obtain his hoped-for design patent, the March 1980 agreement became ineffective for failure of consideration, as you subsequently held herein on July 16, 1984 (*see* transcript of proceeding held before you on October 5, 1985 at p. 24; *see also* Tr. 679-784). By reason of the assumed nullity of the March 1, 1980 agreement, however, the March 1978 agreement, and all of its terms, including the stipulated termination date of August 31, 1980, necessarily remained in full effect, together with defendants' obligations to pay royalties thereunder (*see* transcript of proceedings held before you on October 5, 1984, at pp. 23 and 24).

This litigation arose when plaintiff arrived at the perception that he had not received proper royalty payments. Plaintiff's complaint, filed April 1, 1981, demanded an accounting for royalties due to him and judgment for the amount of royalties found to be due. In an amended complaint received by Judge Werker on March 4, 1982 but (through clerical oversight) not filed until April 17, 1985 as Court Document #31A, the plaintiff charged that defendants had breached their obligations to pay royalties both under the March 8, 1978 agreement and the March 1, 1980 agreement. the amended complaint also contained a so-called third count in which defendants were charged with "unjust enrichment" by reason of their having appropriated the plaintiff's trade secrets, know-how, ideas and inventions without payment of compensation therefor.

While this additional count contained in the plaintiff's amended complaint could be liberally construed as a charge of breach of fiduciary duty on the part of the defendants, thereby entitling plaintiff to a recovery against the defendants were the Court to find that the defendants had in effect stolen plaintiff's technical "know-how" for their financial

benefit without fair compensation, and while then-counsel for plaintiff, by subsequent motion for partial summary judgment, sought a ruling from this Court upholding plaintiff's right to seek such relief irrespective of whether the compacts sold by defendants were, in a technical sense, an infringement of plaintiff's rights under his mechanical patent, Judge Werker in a decision dated April 11, 1983, after noting that plaintiff in his motion for summary judgment

> seeks a holding that, as a matter of law, royalties due him under the March 8, 1978 agreement are not restricted only to sales which infringe the claims of the United States patent No. 4,126,145, contending that said agreement is not a patent license

proceeded to hold as follows:

> This Court holds that, as a matter of law, the March 8, 1978 Agreement is solely a patent license.

Consistent with the ruling just described, Judge Werker had previously held, on December 1, 1982, that the defendants, by way of defense to this action, had the right to show that some or all of the compacts sold by them did not "embody the light and electrical mechanism for which plaintiff was afforded a [mechanical] patent." (Memorandum decision of Judge Werker dated December 1, 1982 and filed in Court December 6, 1982 as Court Document No. 49, referred to by me at Tr. 678 and 679.)

The two rulings by Judge Werker just referred to would appear unequivocally to preclude plaintiff from doing what his present counsel now appear to be trying to do, namely to construe the March 8, 1978 agreement as not a mere patent license, but a license protecting the plaintiff from exploita-

tion of any ideas conveyed by plaintiff to defendants without paying fair compensation therefor. Whether one agrees with said ruling or not, it the law of this case and certainly binding, therefore, on me.

Furthermore, your subsequent ruling recorded at page 24 of the transcript of proceedings held herein before you on October 5, 1984, that "[No] claim for unjust enrichment will be allowed" would in any event appear to constitute the death knell of the so-called third court of plaintiff's amended complaint.

I should also note that at the above-mentioned October 5, 1984 session, you also ruled at page 24 that plaintiff was "guilty of laches by failing to bring infringement lawsuits to protect his mechanical patent after he was notified of the circulation of 'knockoffs'".*

Having ruled as indicated in the preceding paragraph hereof, you thereupon directed that this case be referred to me, as aforesaid, for the purpose of ascertaining the correct amount of royalties payable to plaintiff, but remaining unpaid, pursuant to the terms of the March 8, 1978 agreement, which, as indicated above, you have determined to have expired by its own terms as of August 31, 1980.

The hearing which I subsequently conducted pursuant to yo order of referral was conducted with the following assumptions on my part, which I believe to be valid.

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* Had the complaint in this action contained a count charging defendants with patent infringement as such, that ruling might well have require the dismissal of that count. However, and as already indicated, the complaint if purely one for breach by defendants of their alleged obligations to pay contractual royalties.

1. To the extent that plaintiff believes that the monthly royalty payments which he actually received from defendants during the effective period of their contractual relationship were erroneously computed, he is entitled, under the terms of his contract as well as under equitable principles, to some form of substantiation by defendants of the basis of their computation, *i.e.*, in effect, an "accounting", as requested in the complaint. (However, for reasons hereinafter stated, I have concluded that the objectives of any compulsory accounting have already been achieved in this case as a result of voluntary disclosure of defendants' sales supplemented by an audit of defendants' records heretofore conducted by a representative of plaintiff.)

2. Plaintiff is entitled to be paid royalties (to the extent not previously paid), at the rates specified in the March 8, 1978 agreement, for the defendants' actual sales, during the period from March 8, 1978 through August 31, 1980, of ladies' compacts which "embod[ied] the light and electrical mechanism for which plaintiff was afforded a [mechanical] patent."

3. As a necessary corollary to assumption #2, *supra*, defendants should be permitted to demonstrate, should they so contend, that the compacts which they developed themselves and sold, did not infringe upon plaintiff's mechanical patent and that defendants are accordingly exempt from royalty payments with respect thereto. (Perhaps this assumption constitutes a misplacement of burden of proof on the defendants, but the fact is that they accepted such burden by voluntarily offering expert testimony to rebut any possible inference of infringement that could be drawn from the testimony offered by plaintiff.)

4. Any pre-litigation statement made by plaintiff in which he purported to concede that the products being sold

by defendants for which plaintiff now seeks royalty payments did not infringe upon his mechanical patent may be a proper basis for an estoppel against any infringement claims by plaintiff. (While plaintiff concedes having made such statements, he now claims that they were made "under duress".)

The respective positions of counsel for the parties respecting the contested issues of fact in this case may be summarized as follows:

According to counsel for plaintiff, defendants' compacts clearly infringed plaintiff's mechanical patent, (1) by reason of the physical appearance and physical components thereof, and/or (2) by reason of estoppel, based upon what is claimed by plaintiff to have been the willful distribution by defendants of some of their compacts (for which they paid no royalties) containing the number of plaintiff's mechanical patent imprinted thereon, and/or (3) because the terms of the March 8, 1978 agreement covered any and all compacts substantially similar in appearance to plaintiff's compact, irrespective of whether a technical infringement might be involved.

According to counsel for the defendants, on the other hand, (1) it is established by the testimony of defendants' expert witness, Stanley Yavner, Esq., that there was no legal infringement of plaintiff's patent rights herein and/or (2) the brief and inadvertent or accidental distribution by defendants of some compacts containing the plaintiff's patent number, with no evil intent, constitutes no basis for any estoppel and/or (3) to the extent that plaintiff seeks to extend the scope of the March 8, 1978 agreement to compacts not within the coverage of plaintiff's mechanical patent, any such agreement would be unenforceable as a "misuse of patent", and for the further reason that any such attempted

extension of the scope of the agreement would be in square contravention of Judge Werker's prior decision of april 11, 1983, discussed at pages 4 and 5, *supra,* this Report.

GENERAL DISCUSSION

From the testimony and evidence considered by me in this case, I now make the following findings and observations.

In what might at least arguably be characterized as a breach of fiduciary duty on the part of the defendants, they deliberately caused to be manufactured, and thereafter sold by them to the public, what could accurately be described by a layman as a "Chinese copy" of the ladies' compact which was the subject of the March 1978 agreement between the parties, in order to avoid the expense of paying royalties for the sale of those compacts. (*See* my comments at Tr. 657.)

Nevertheless, because of the strictures heretofore placed on the scope of this litigation by Judges of this Court, it necessarily follows that plaintiff is not now entitled to any judicial relief merely by reason of an assumed breach of fiduciary duty and/or unjust enrichment on the part of defendants, plaintiff's present rights being limited to a judicial determination of the amount, if any, of royalty payments wrongfully withheld respecting sales by defendants of those compacts which may properly be said to be within the scope and coverage of plaintiff's mechanical patent of November, 1978.

Upon my consideration of the above-mentioned strictures, I must conclude as follows:

1. While, as already indicated by me, there is indeed a very strong physical resemblance between the compact originally circulated by defendants and concededly within the

coverage of plaintiff's licensed mechanical patent and those compacts subsequently manufactured and sold by defendants and claimed by them to be outside the coverage of the March 8, 1978 agreement and the mechanical patent therein referred to, I am nevertheless persuaded by the testimony of Stanley Yavner, Esq., the defendants' patent law expert, whose knowledgeability respecting the niceties of patent law impressed me deeply, that intrinsically speaking the plaintiff could not have successfully maintained a patent infringement suit against the defendants based ont he transactions here in suit.

2. Of further significance is the fact that plaintiff's former counsel of record conceded, in a letter dated December 14, 1982 addressed to Judge Werker, that at least one of the compacts being exploited by defendants "does not infringe the claims of the patent", while at the same time arguing that plaintiff is entitled to claim royalties with respect thereto because of his contention that the March 8, 1978 agreement was "not merely a patent license" -- a contention which, as I have already stated, was later rejected by Judge Werker in his decision of April 11, 1983, *see* pages 4 and 5, *supra*.

3. More importantly, however, plaintiff himself conceded that defendants' activities did not constitute an infringement of plaintiff's mechanical patent in a letter prepared by his own attorney and signed by him under date of March 10, 1980. (Joint Trial Exhibit 73, *see* comments at page 29 of defendants' post-hearing memorandum.) Although he now seeks to repudiate that concession as having been a product of economic duress (Tr. 91-98), I cannot accept that contention and am rather constrained to treat it as a binding admission against the plaintiff's interest.

4. With respect to what appears to me as to have been an entirely accidental and unintentional presence, for a brief period, of plaintiff's patent number on compacts claimed by defendants to be outside the scope of plaintiff's patent, I am unprepared, for the reasons stated in defendants' post-hearing brief (*see* pages 43 to 45 thereat), to treat that circumstances as a basis for estopping the defendants from denying an infringement.*

5. With respect to the question of whether the so-called doctrine of equivalents is applicable to this case, counsel for the plaintiff advert briefly to the doctrine at page I-29 of the plaintiff's post-hearing memorandum, observing that the doctrine is "designed to protect a patentee from an infringer who appropriates the invention but, in doing so, evades the literal language of the inventor's patent claims." Yet, far from suggesting that the plaintiff patentee is entitled to invoke the doctrine to prove an infringement, plaintiff's counsel unaccountably conclude, at page I-31 of the memorandum, that since "the doctrine of equivalents comes into play only when actual literal infringement is not present", citing *Hughes Aircraft* v. *United States*, 717 F.2d 1351, 1361 (Fed. Cir. 1983), and since defendants' compacts

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* I find my self in agreement with the comparable holding of the trial judge in the case of *Lugash* v. *Santa Anita Manufacturing Corporation*, 254 F. Supp. 96, 101 (S.D. Cal. 1965), *reversed on other grounds*, 369 F.2d 964 (9th Cir. 1966), *cert. denied*, 389 U.S. 827 (1967), wherein the judge observed:

> ...the Court concludes that mismarking was a mistake and that plaintiff in doing so, did not have the intent to defraud or to deceive....

"*literally* infringe the Boyd patent", it follows that "one never reaches the doctrine of equivalents."

If that conclusion be true, it would hardly appear necessary to counsel *defendants* to address themselves to the doctrine of equivalents. They do so, however, at pages 41 and 42 wherein it is confidently concluded that "[T]he doctrine of equivalents does not support the claims of plaintiff because the Schildkraut circuit breaker switch does not infringe plaintiff's patent." Thus both sides seem to agree, albeit for diametrically opposite reasons that the doctrine of equivalents is here inapplicable and *need* not be addressed.

6. Finally, and perhaps, repetitiously, I am constrained to conclude that to the extent counsel for the plaintiff, in the course of the hearing before me and in their post-hearing briefs, seek to amplify the scope of the March 8, 1978 agreement (an understandable effort in the light of the literal language therein contained) to include an obligation ont he part of the defendants to pay royalties on their sales of any and all compacts substantially similar in appearance to the one represented by plaintiff's mechanical patent, irrespective of whether the compacts were technically within the coverage of said patent, that attempt it precluded, not only by Judge Werker's above-mentioned limitation on the scope of this suit as an action based on a patent license, but more basically by the decision of the United States Supreme Court in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 133-140 (1969), *appeal after remand, 401 U.S. 321 (1971), wherein the Court seems to declare unenforceable as a misuse of patent any licensing agreement that requires the licensee to make royalty payments not only on the patent as to which a license was granted by also on all devices licensed under the agreement, whether patented or not.*

Accordingly, I am constrained to recommend that to the extent that plaintiff seeks to obtain royalties on sales of defendants' compacts other than the so-called Ray Glow compact containing the plaintiff's patented cam switch, plaintiff's application be denied.

7. To recapitulate, I believe that plaintiff has failed to demonstrate by a preponderance of evidence the existence of any sales by defendants subject to royalty payments to him other than those sales voluntarily reported to him by defendants through the end of May, 1980, as set forth in Table A. Furthermore, I am compelled to conclude, in the absence of reliable proof to the contrary, that following the issuance to plaintiff of their final monthly sales report showing sales through the end of April, 1980, the defendants made no substantial reportable sales of any devices covered by plaintiff's 1978 mechanical patent, electing instead to use a device designed by Mr. Schildkraut which, while claimed by plaintiff to have infringed upon his mechanical patent, I have nevertheless found, on the basis of Mr. Yavner's testimony, to be non-infringing. It would therefore appear that there are no obligations owed by defendants to plaintiff except with respect to sales heretofore voluntarily disclosed and reported to plaintiff by defendants in their various royalty statements, as described below.

DISCUSSION OF PLAINTIFF'S COMPENSATION OF THE AMOUNT OF ROYALTIES PRESENTLY DUE FROM DEFENDANTS TO PLAINTIFF

Appended to plaintiff's post-hearing memorandum are five separate "tables" (Tables A, B, C, D and E), setting forth various alternative calculations of the amount of defendants' total sales of the products said to be covered by

plaintiff's mechanical patent. Table A is said to be based upon the defendants' royalty statements collectively received in evidence as Joint Trial Exhibit 20. Table B is said to be based upon defendants' royalty records, "augmented by internal data". Table C is alleged to be based upon defendants' "internal year-end statements". Table D is described as constituting the sum of defendants' invoiced sales, as calculated by the plaintiff's wife upon her examination of the business records of the defendants. Table E is described as a "calculation of sales from parts purchased" (*i.e.*, batteries and light bulbs).

The respective results of these alternate methods of computation are set forth below:

TABLE	ALLEGED TOTAL SALES
A	$ 4,524,328.38
B	5,232,903.75
C	8,365,664.84
D	8,951,329.90
E	14,685,692.00.

With the exception of the computation contained in Table A, I believe that the calculations submitted by or on behalf of the plaintiff are to a large degree speculative and incapable of precise substantiation, and therefore cannot be accepted. The extraordinary range between the lowest aggregate and highest aggregate sales figures that exists in the five separate tables is perhaps the best possible evidence of the highly speculative nature of plaintiff's alternative calculations.

A further difficulty I have in accepting the data submitted by plaintiff respecting defendants' total sales, particularly

Table D, based upon an analysis by plaintiff's wife of defendants' invoices, is that it is not all clear that all of those invoices necessarily represent sales of plaintiff's patented cam device rather than a device which plaintiff vainly claims is na infringement of plaintiff's patent. This difficulty is exacerbated by the fact that plaintiff's own auditor, one Harris J. Nadley, C.P.A., following a 1980 audit of defendants' records, issued an audit report dated May 27, 1980, in which it is stated in part as follows:

> A spot check of sales and component purchases records appears to show that royalties were paid properly to the end of 1979....

Although counsel for the plaintiff seem to suggest that the plaintiff's auditor may have been misled by defendants and that in any event his audit was flawed (*see* plaintiff's Reply to Defendants' Post Hearing Brief, pages II-I@ to 18), I find those arguments to be largely speculative in nature and in no way requiring a conclusion that Mr. Nadley's audit was defective either by reason of nay ineptitude on his part or by reason of his having been deluded by defendants. I note, moreover, in that connection, that Mr. Nadley was not produced as a witness by plaintiff's attorneys.

In short, I find that Table A alone constitutes a proper and adequate starting point for the computation of plaintiff's royalties. The figures appearing in Table A are substantially based upon royalty statements voluntarily submitted by the defendants which, for that reason, clearly constitute admissions against defendants' interest. In that regard, I note in passing that the largest single component sales figure contained in Table A is $1,885,153, said to represent defendants' aggregate sales for the months of October, November and December of 1979 *only*. Unaccountably, the defendant's post-hearing brief states at page 4 that "the dollar

amount of net sales upon which plaintiff was entitled to royalties under the 1978 Agreement" did not exceed the sum of $1,938.01 *for the calendar years 1978 and 1979 -- including 1978 sales totaling $252,728.48.* In making that remarkable assertion, defendants appear to be contending, as stated at page 38 of their reply brief, that

> "Sales for October 1979 exceeding $421,205,77 (Jt. Ex. 48) and sales for every month thereafter through 1980 as set forth in Table A were sales to which plaintiff was not entitled to royalties because those sales were of compacts containing the Schildkraut's circuit breaker switch."

That assertion is irreconcilable with the fact that Joint trial Exhibit 20, upon which Table A is based, represents a clear and binding prior admission by defendants that *all* of the sales for the period from October to December, 1979, as well s all sales from January through May, 1980, were sales creditable to the plaintiff in connection with the computation of his royalties.

Accordingly, I must conclude that a proper basis for the computation of royalties payable to the plaintiff pursuant to the terms of the March 1978 agreement is contained in Table A appended to plaintiff's post-hearing memorandum at page II-9. As indicated in the preceding page hereof, that total amounts to $4,524,328.38.

Under the terms of the March 1978 agreement, plaintiff was entitled to receive royalty payments on said aggregate net sales as follows: 7% of the first $1 million; 6% of the second $1 million; 5% of the third $1 million and 4% of all net sales in excess of the above amounts (Joint Trial Exhibit 78; defendant's post-hearing brief, page 4).

It would appear, therefore that based on the information contained in Table A, plaintiff would be entitled to royalties computed as follows:

7% of the first $1 million	$ 70,000
6% of the second $1 million	60,000
5% of the third $1 million	50,000
4% of the fourth $1 million	40,000
4% of $524,328	20,973
total royalties payable	$240,973.

It has been stipulated that plaintiff has heretofore received from defendants the sum of $169,779.57 (rounded off to $169,780) in royalty payments for sales by D & E and Schildkraut. (Joint Pretrial Order dated June 30, 1983 and filed July 5, 1983 as Court Document No. 61.)*

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* Although counsel for defendants attempt to assert a credit for prior royalty payments in a sum exceeding the above figure by $6,000 (*i.e.*, $175,779.57, *see* defendants' post-hearing brief at page 4), possibly based on legal fees paid by defendants to Boyd's patent attorney, Mr. Lehrer, as memorialized in the March 1978 agreement, I decline to relieve defendants of the stipulation contained at page 3 of the Joint Pretrial Order wherein, at paragraph 9 under the heading of "Agreed Findings of Fact," it is stated as follows:

> 9. Plaintiff has received $169,779.57 in royalty payments for sales by D & E and Schildkraut of which $16,205.39 was paid by Schildkraut and the remainder by D & E.

Therefore, it would appear that plaintiff is entitled in this action to recover royalty payments as follows:

$240,973	total royalties earned
(less) 169,780	royalties previously paid
$ 71,193	net amount due.

The above calculation is, however, subject to a further adjustment as a result of a concession contained at page 38 of defendants' reply brief to the effect that plaintiff's Table A fails to include a listing of defendants' June 1979 net sales attributable to compacts containing plaintiff's cam switch, in the stated amount of $139,896.25. That being so, plaintiff would appear to be entitled to recover an additional royalty payment consisting of 4% of the figure just mentioned, or $5,596, which, when added to the previously mentioned figure of $71,193, results as follows:

$71,193	
(plus) 5,596	
$76,789 =	total amount due and unpaid.

I believe that plaintiff is fairly entitled to recover the amount just stated, together with interest thereon computed at the rate of 9% per annum from the date of commencement of this action, *i.e.*, April 1, 1981.

Having reached the conclusion just stated, I must necessarily reject the claim contained at page 4 of defendants' post-hearing brief to the effect that the commissions now claimed by them to have been paid to plaintiff, *i.e.*, $175,779.57, represent an "overpayment" and that the defendants are entitled to receive from plaintiff, on their

counterclaim, a sum stated to be in the amount of $26,892.77.

The basis for the above-mentioned counterclaim, of course, is the argument that by reason of this Court's prior determination that the March 1990 agreement was rendered ineffective because of the plaintiff's failure to have obtained a design patent as he had promised to do in that agreement, the royalties which plaintiff received pursuant to the March 1980 agreement were payments to which plaintiff was not entitled. The short answer to that argument, however, is that by reason of the assumed nullity of the March 1980 agreement, the earliest agreement of March 1978 remained in effect - as you have indeed already ruled - until its stipulated expiration date, *i.e.*, August 31, 1980, by reason of which any sales which were reported to plaintiff in defendants' voluntary royalty statements for the months of March, April and May, 1980, are properly creditable to plaintiff for purposes of computing the royalties due to him pursuant to the terms contained in the March 8, 1978 agreement.*

Accordingly, the counterclaim of defendants for the recovery of any alleged "overpayments" made by them pursuant to the invalidated 1980 agreement should be summarily rejected, and I so recommend.

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* To the extent that I heretofore indicated a disposition to hold that plaintiff's post-March 1980 royalties should be computed at the lesser rates set forth in the March 1980 agreement (see my comments, Tr. 684), I wish to note that upon reconsideration, I have concluded that by reason of the assumed legal ineffectiveness of the March 1980 agreement, the rates prescribed therein ought to be deemed inapplicable.

Even were this Court to find that my assumption that no overpayment exists in this case is erroneous and that an actual overpayment occurred, I would recommend that the counterclaim, which is based essentially on the quasi-contractual concept of unjust enrichment, be denied, since it is obvious that there has been no unjust enrichment on the part of plaintiff. In essence, he received all of his royalty payments in good faith, believing himself entitled to same, and should therefore be under no obligation to make any refund. *Compare Pensacola & Atlanta Railroad Co. v. Braxton*, 34 Fla. 471, 16 So. 317 (1894), wherein the court observed, in a similar situation: "Under these circumstances we do not think that retention of the money by him necessarily involved any smartings of good conscience." I am reinforced in this view by reason of my doubts as to the good faith of defendants in their business dealings with plaintiff.

GENERAL DISCUSSION

For all the reasons hereinabove stated, I conclude (1) that the plaintiff is justly and legally entitled to recover from the defendants, as unpaid royalties, the sum of $76,789, together with interest thereon computed at the rate of 9% per annum from April 1, 1981 (the date of commencement of this action) until the date of entry of judgment, and (2) that the defendants' counterclaim should be dismissed, together with costs as taxed by the Clerk.

I recommend that the Clerk be directed to enter judgment accordingly.

Copies of this Report have been mailed this date to counsel for the interested parties, all of whom are advised of their right, pursuant to Rule 72(b) (read in connection

with Rule 6(e)), Fed. R. Civ. P., to file in your chambers, not later than 13 days from the date hereof unless extended by you, any specific objections to this Report or any part thereof.

I transmit to you herewith the below-listed papers considered by me in connection with the preparation of this Report, including, of course, the transcript of the hearing held by me on January 23rd, 24th and 25th, and April 15th and 16th, 1985, filed in Court on september 13, 1985 as Court Documents #79, #80, #81, #82 and #83.

	Description	Filing Date	Court Document #
1.	Plaintiff's Complaint	4/1/81	1
2.	Amended Complaint	4/17/85	31A
3.	Consent Pre-trial Order	7/5/83	61
4.	Memorandum Decision No. 54536, per Werker, D.J., denying plaintiff's motion for partial summary judgment	4/12/83	60
5.	Memorandum Decision No. 53992, per Werker, D.J., denying defendants' motion for summary judgment	12/15/82	49
6.	Transcript of proceedings held before Judge Lowe on October 5, 1984	12/28/84	68
7.	Order of Judge Lowe dated October 5, 1984, referring case to Magistrate Raby for evidentiary hearing and Report respecting the amount of	10/5/84	65

	royalties paid or due and owing to plaintiff		
8.	Transcript of evidentiary hearing held by Magistrate Raby on 1/23/85, 1/24/85, 1/25/85, 4/15/85 and 4/16/85	9/13/85	79 - 83
9.	Plaintiff's Post-Hearing Memorandum	6/17/85	74
10.	Defendant's Post-Hearing Brief	6/18/85	75 and 76
11.	Plaintiff's Reply to defendants' post-hearing brief	6/26/85	77
12.	Defendants' Reply Brief	6/27/85	78

I also transmit to you herewith the various exhibits received by me in the course of the hearing, particularly Joint Exhibits 18, 20, 73 and 78 and defendants' Exhibit A.

(Although counsel in this case have submitted to me a number of pretrial deposition transcripts, I have not found anything therein which required any comment or citation in this Report, and I accordingly request that counsel arrange to pick up those transcripts at my office at their early convenience, with the understanding that they have the right, if so disposed, to submit any of them to you which they believe have bearing on the subject matter of my Report.)

Dated: New York, New York
September 17, 1985

Respectfully submitted,

_____
HAROLD J. RABY
UNITED STATES MAGISTRATE

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 (MJL)

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

MEMORANDUM OPINION AND ORDER

APPEARANCES:

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MARY JOHNSON LOWE, D.J.

This is a diversity action for breach of an agreement granting Defendants a patent license. After a lengthy litigation conducted before the late Judge Werker and this Court, the sole task remaining is to account for the royalties paid and owing between the Plaintiff and the Defendants. For this purpose, the matter was referred to former Magistrate Raby to report and recommend. Upon due consideration of the Magistrate's report and the parties' objections thereto, the Court agrees with the Magistrate's overall analysis but finds that no distinction was between sales of items covered by the above agreement and items not covered by it. The Court therefore finds that Plaintiff is owed no additional royalties. The Court also finds that Defendants have failed to prove their counterclaim for reimbursement of allegedly overpaid royalties.

BACKGROUND

Plaintiff is an inventor. In 1978-1979, he designed the "Ray-glo Compact" -- a folding, self-illuminating mirror case adapted to be used in a woman's purse (hereinafter "cam compact"). Mounted inside the case is a battery, a switch, and electric lights. These components are covered by an intermediated member which has a configuration complementary to the bottom of the case, and which includes a mirror and light diffusers. The switch is adapted to turn the lights on when the case is opened and turn them off when the case is closed. It does this by means of a cylindrical cam, part of the surface of which is flat. By opening and closing the compact, the cam is rotated. The rotation of the cam upon opening the compact has the effect of moving

flat metal strips along channels into contact with the battery, thereby causing the lights to go on. The rotation of the cam upon closing the compact, conversely, moves the metal strips away from the battery, causing the lights to go off. In November 1978, Plaintiff was issued a mechanical patent for this mechanism. U.S. Patent No. 4126145.

On March 8, 1978, Boyd and defendant D & E entered into a patent license agreement ("the 1978 Agreement")[1] concerning the cam compact, described as the "Invention" in the Agreement. Joint Trial Exhibit ("JTE") 78. At the time, Boyd's application for a mechanical patent was still pending. The Agreement covered the period from March 8, 1978 to August 31, 1980 and provided in part as follows:

> Boyd hereby grants and conveys unto D & E the exclusive right and license to produce, manufacture, distribute, sell, market, use and otherwise exploit and commercialize the Invention and all patents that may be issued thereon, and all additions, improvement, modifications, extensions and developments thereof, including all other products and items which may hereafter be developed or invented, incorporating or using any of the salient features of the Invention or any of the ideas, concepts or claims set forth in the Patent Application, and any amendments thereof, or in any patent that may hereafter be issued to the Patent Application . . . .

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[1] Judge Werker determined early on that this agreement "is a patent license and not a license for the sale of an invention." April 11, 1983 Memorandum Decision at 5.

1978 Agreement at ¶ 2. In consideration of the above, the Defendants[2] agreed to pay boyd royalties, in specified percentages, on the net sales by Defendants of the cam compact and related products, less discounts, credits, returns, and allowances. 1978 Agreement at ¶¶ 7, 8.

The 1978 Agreement also stated that it would be renewed for an additional period of three years provided that the Defendants pay Boyd at least $100,000 in royalties during the initial term of the Agreement. The renewal option would be deemed automatically exercised unless Defendants gave Boyd written notice of their intent not to renew at least 30 days prior to the expiration of the initial term of the Agreement. 1978 Agreement at ¶ 15. By letter dated November 7, 1979, D & E notified Boyd that it would not renew the 1978 Agreement and it would therefore expire on August 31, 1980. *See* July 29, 1982 Affidavit of Edward Sacks, at Exh. C.

A dispute soon arose among the parties concerning the manner of computing royalties under the 1978 Agreement. Boyd and the Defendants consequently entered into another agreement on March 1, 1980 ("the 1980 Agreement"). JTE

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[2] Although the original designated licensee in the Agreement was D & E, the principal of which was one Edward S. Sacks, the Magistrate determined that "it appears incontestable that the obligations as well as the rights under the license agreement were thereafter assumed in equal part by the other corporate defendant herein, Schildkraut Giftware Corporation, in which Mr. Sacks thereafter acquired a 50% stock ownership as well as being involved in the active management thereof. Accordingly, it seems clear that whatever liability here exists must be shared jointly by Schildkraut and D & E. Report and Recommendation at 2.

18. This agreement provided that, [e]xcept as expressly set forth herein, the March [1978] agreement is terminated as of January 1, 1980 and neither party has any rights or obligations under said agreement." The Defendants agreed to continue paying royalties to Boyd on the cam compacts, albeit at a substantially reduced rate from the 1978 Agreement. Defendants further agreed to pay royalties on any compacts they sold embodying a design for which Boyd has applied for a design patent.

The 1980 Agreement also stated that, in the event that the design patent application was rejected or, if granted, invalidated by court order,, Defendants had the option to terminate the Agreement. The Agreement further provided that, should they exercise that option, Defendants would be relieved of all royalty payments for sales made any time after thirty days before their termination.

Royalties under the 1978 Agreement were in fact paid until approximately October 1979, at which time the payments were stopped. Royalty payments resumed in or about March 1980 based on reported sales for the period from October 1979 through March 1980. Those renewed payments apparently were made under the terms of the 1980 Agreement. Because Plaintiff's design patent application was rejected, Defendants obtained the option to terminate the 1980 Agreement. In a hearing held before this Court in July 1984, however, that agreement was deemed ineffective for failure of consideration. *See* Oct. 5, 1984 Hearing Transcript at 24. The 1978 Agreement therefore remained in full effect until its stated termination date of August 31, 1980. *Id.* at 23.

Plaintiff filed his complaint on April 1, 1981, alleging that he had received less royalties than he was due. He demanded an accounting of and a judgment for the amount

of royalties allegedly owed him. In an amended complaint, he added two additional counts. The second count charged that Defendants had breached their obligation to pay royalties under the 1980 Agreement. The third count alleged that Defendants were unjustly enriched by appropriating plaintiff's ideas, trade secrets, knowhow, and inventions without paying compensation therefor. Neither of these counts is before us any longer, however. *See* December 1, 1982 Memorandum Decision at 8; April 11, 1983 Memorandum Decision at 7. *See also* Oct. 5, 1984 Hearing Transcript at 23-24 ("No claim for unjust enrichment will be allowed").

Thereafter, the matter was referred to former Magistrate Raby for a report and recommendation as to the amount, if any, of royalties due Plaintiff under the terms of the 1978 Agreement. After an extensive hearing, the Magistrate made several findings, the most relevant of which are summarized here:

(1) While Defendants produced "knock-offs" of Plaintiff's cam compact, these similar-looking compacts did not infringe Plaintiff's mechanical patent and were thus outside the scope of the 1978 Agreement. The Magistrate's finding in this respect relied on the testimony of the defendants' patent law expert, Stanley Yavner, Esq., whose expertise impressed the Magistrate "deeply". Report and Recommendation ("R&R") at 10.

(2) Plaintiff, in a March 10, 1980 letter signed by him and his attorney, conceded that compacts being sold by Defendants' as of January 1980 did not infringe Plaintiff's mechanical patent. JTE 73. At the hearing, Plaintiff contended that his concession was a product of economic duress. Magistrate's Hearing Transcript ("HT") at 91-98. However, the Magistrate found this explanation to be

implausible, and construed the letter as an admission against interest.

(3) Similarly, Plaintiff's counsel, in a December 15, 1982 letter to Judge Werker, admitted that at least one of the compacts then being sold by Defendants "does not infringe the claims of the patent." He argued that this compact was nevertheless subject to royalties payable under the 1978 Agreement on the grounds that the Agreement was "not merely a patent license." However, as stated above, the law of this case is that the Agreement is solely a patent license.

(4) Defendants' use of Plaintiff's patent number on its knock-offs was "entirely accidental and unintentional," and thus not a basis for estopping the defendants from denying an infringement.

As to the actual amount of royalties owed between parties on the cam compact, the Magistrate made the following further findings:

(1) Of the five alternative calculations by Plaintiff of Defendant's net total sales of the compact, the lowest -- $4,524,328.38 -- is the most accurate and reliable. *See* Plaintiff's Post-Hearing Memorandum at II-9 ("Table A"). Table A is based upon the Defendants' royalty statements, collectively received in evidence as Joint Trial Exhibit 20. the Magistrate based this finding on the "highly speculative nature of plaintiff's alternative calculations," and on the finding by Boyd's own auditor, a Mr. Nadley, that Defendants had properly paid royalties. R&R at 16-17. Plaintiff's argument that the auditor's findings were flawed, possibly because he was allegedly misled by Defendants, was determined by the Magistrate to be wholly unsubstantiated and without merit. *Id.*

(2) The Magistrate rejected Defendants' argument that, of the royalties paid to Plaintiff beginning in October 1979 (which are reflected in the above calculation), only a small fraction of them were for sales of the cam compact. The remainder, according to the Defendants, were paid pursuant to the 1980 Agreement on compacts embodying Plaintiff's design. In response to this argument, the Magistrate merely stated that it is

> irreconcilable with the fact that Joint Trial Exhibit 20, upon which Table A is based, represents a clear and binding prior admission by defendants that *all* of the sales for the period from October to December, 1979, as well as all sales from January through May, 1980, were sales creditable to the plaintiff in connection with the computation of his royalties.

R&R at 18. As will be discussed further below, this finding overlooks that, while sales between October 1979 and May 1980 may well have been creditable to Plaintiff, now all of them were of the cam compact.

(3) Pursuant to the 1978 Agreement, the royalties payable to Plaintiff on the alleged $4,524,328.38 in sales are $240,973.[3]

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[3] The 1978 Agreement provides that royalties be paid according to the following formula: 7% of the first million in net sales of the cam compact; 6% of the second million; 5% of the third million; and 4% of the remainder. The Magistrate's calculation of royalties was thus made as follows:

7% of the first million	$ 70,000
6% of the second million	60,000

(4) The royalties actually paid to plaintiff by Defendants total $169,779.57 (rounded to $160,780). Defendants stipulated to this amount in the Joint Pre-Trial Order, at 2, and the Magistrate relied on the stipulation as the best indicator of that figure's accuracy.

(5) The net royalties due Plaintiff are thus calculated by subtracting from royalties due the royalties paid: $240,973-$169,780 = $71,193.

(6) Notwithstanding the above total, Plaintiff is entitled to an additional $5,596 in royalties derived from $139,896.25 in sales of the cam compact in June 1979. According to the Magistrate, these sales were a "concession" by Defendants of sales that went unreported in their routine royalty reports. As discussed below, *infra* note 4, this finding must be set aside because it credits the June 1979 sales twice.

The Magistrate thus concluded that Boyd is owed $76,789 in royalties, together with interest thereon at the rate of 9% per year from the date the lawsuit was commenced. He further found that, because there was no overpayment of royalties, Defendants are not entitled to a refund of royalties paid.

5% of the third million	50,000
4% of $1,524,328	60,973
Total Royalties Payable	$240,973

DISCUSSION

1. *Plaintiff's Claim for Royalties*

As required by the Federal Rules of Civil Procedure, we must modify or set aside any portion of the Magistrate's order found to be "clearly erroneous or contrary to law." F.R.Civ.P. 72(a). The source of our finding of clear error in the Magistrate's calculations is that he overlooked what percentage, if any, of total royalty payments made after October 1979 were for sales of the cam compact. Upon careful review of the record, we find that only a small percentage of those payments -- duly reported by Defendants -- were for sales of said compact. The other payments were for sales of compacts not covered by the 1978 Agreement. Plaintiff has failed to meet Defendants' well-founded argument in support of its position. Plaintiff is thus entitled to no additional royalties.

We emphasize that we are in agreement with the Magistrate's determination that Plaintiff's Table A calculation most accurately reflects Defendants' total sales of compacts from 1978 to 1980. Plaintiff's Post-Hearing Memorandum at II-9. What Table A fails to indicate, however, and that the Magistrate did not distill from it, is what proportion of those sales were of the cam compact.

In determining total sales of the cam compact, we are satisfied that virtually all such sales were accounted for as of Defendants' October 1979 royalty report. Mr. Schildkraut testified before the Magistrate that beginning in September 1979 his firm effected an "actual switchover" from production of the cam compact to production of a "wedge" compact which did not infringe the patent on the cam mechanism. Hearing Transcript ("HT") at 773-85. the mold for

the wedge compact was inspected by Mg. Schildkraut on September 16, 1979, hardened over the ensuing weekend, and put into production the following week. *Id.* Because the Hong Kong manufacturer shipped all compacts to Defendants by air freight "as fast as [it] could manufacture them," HT at 782, 846-47, Defendants received all remaining cam compacts by the end of September. HT at 784. Defendants then counted the cam compacts on hand and credited their sale to Plaintiff in the October 1979 royalty report. JTE 48. The sales were credited on a "first in, first out" basis: the first sales of compacts in October 1979 were invoiced as sales of cam compacts, whether or not they actually were, until all cam compacts had been accounted for. HT at 783. The October 1979 sales of the cam compacts totalled $421,253.77. JTE 48. In addition, "Lite Fantastik" compacts, a mode which also contained the cam mechanism, sold during September and October 1979 in the amount of $438,806. Defendants' Post-Hearing Brief at 4, Defendants' Objections to R&R at 9.

The remaining compact sales in October 1979 and all sales thereafter embodied only the non-infringing wedge-type switch designed by Mr. Schildkraut. HT at 784-85. It is worth noting that throughout the hearing, Plaintiff did not dispute the above testimony that no cam compacts were produced after September 1979. Rather, he took the incorrect position that the wedge compact infringed his mechanical patent, and thus that he was entitled to royalties under the 1978 Agreement for sales thereof. Additionally, Plaintiff admits that royalty reports for 1980 sales relate to the non-infringing compact covered by the 1980 Agreement. Plaintiff's Post-Hearing Memorandum at II-10. He also admitted in early 1980 that compacts then being sold by Defendants did not infringe his mechanical patent. JTE 73.

We now come to tabulating the actual sales of cam compacts under the 1978 Agreement. Defendants do not dispute Plaintiff's Table A sales figures for all of 1978 and for January through September 1979. There is also no dispute over the sales figures for June 1979 or for the Lite Fantastik compact during September and October 1979. As stated above, we are satisfied that all remaining sales of the cam compact, credited in October 1979, total $421,253.77. Adding these figures, we compute the total sales of the cam compact between 1978 and 1980 as follows:

1978:	March to December	252,728.80
1979:	January to May, July to September	1,125,051.50
1979:	June	139,890.35
1979:	October	421,253.77
1979:	Lite Fantastik in September, October	265,064.00
TOTAL SALES		$2,203,988.02

The royalties due Plaintiff on these sales are calculated pursuant to paragraph 8 of the 1978 Agreement as follows:

7% of the first million	$ 70,000
6% of the second million	60,000
5% of $203,988.42	10,199.42
TOTAL ROYALTIES DUE PLAINTIFF	$140,199.42[4]

[4] The Magistrate supplemented this amount by $5,596, the amount of royalties due on the June 1979 sales. Although sales for this month were not contained in Plaintiff's Table A, Defendants provided this missing information in

As stipulated in the Joint Pre-Trial Order, Plaintiff received a total of $169,779.57 in royalties between 1978 and 1980.[5] Subtracting royalties due from royalties paid, we derive the following balance:

Royalties paid	$169,779.57
Royalties due	140.199.42
BALANCE	$ 29,580.15

Thus, it is clear that Plaintiff has not been underpaid royalties due him pursuant to the 1978 Agreement.

2. *Defendants' Counterclaim for Reimbursement*

It remains to be determined whether Defendants are entitled to reimbursement for royalties allegedly overpaid to Plaintiff. Because Defendants have failed to prove this claim by a preponderance of the evidence, we find that they are not. *See Spinnerin Yarn Co., Inc. v. Apparel Retail Corp.*, 614 F. Supp. 1174 (S.D.N.Y. 1985).

In their objections to the Magistrate's Report and Recommendation, Defendants devote scarcely half a page to arguing that the discrepancy between royalties paid and owed establishes that Defendants are *ipso facto* entitled to reim-

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their Reply Brief at page 38. Apparently, however, the Magistrate factored in the June 1979 sales twice, for our calculations show that, including the June 1979 sales, Plaintiff is due no more than $140,199.42. Therefore, we decline to supplement this amount by $5,596.

[5] Defendants do not allege that this amount includes sales of other than the cam compacts.

bursement. Defendants' Objections to R&R at 12.[6] However, too many other possible explanations for the alleged overpayment exist for this argument to be accepted. In particular, Defendants themselves admit that numerous discounts and allowances were given by them to customers for which no documentation exists. Defendants' Reply Brief at 31. They also admit to disposing of records based on the assumed correctness of the audit conducted by Plaintiff's accountant, Mr. Nadley. *Id.*; HT at 853-55. Facts such as these create the distinct possibility that royalties were paid on sales for which no documentation now exists or ever existed, and that Plaintiff was payed what he was owed.

Additionally, it has already been established that Defendants alone maintained records of sales of the cam compact, and that Plaintiff relied on those records to assess the amount of royalties he was owed. Although Plaintiff's accountant, M. Nadley, indeed determined that royalties were properly paid, his report assumed the accuracy of total sales reported. That is, the report was intended to assess

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[6] In their objections to the Report and Recommendation, Defendants appear to drop an argument for reimbursement made earlier in the Joint Pretrial Order. There they contended that, because only D&E was a party to the 1978 Agreement, it was error for Defendants to pay royalties on sales from Schildkraut to its customers. Rather, royalties should only have been paid on sales from D&E to Schildkraut. Joint Pretrial Order at 15 (Defendants' "Proposed Counter Findings [sic] of Ultimate Fact"). This argument has no merit, however, in light of the Magistrate's determination -- which has not been shown to be clearly erroneous -- that Schildkraut assumed the same obligations under the 1978 Agreement as D & E. *See supra* note 2.

the accuracy of royalties paid on reported sales, rather than the accuracy of reported sales. The possibility of an accounting error by Defendant's record-keepers exits and would not necessarily have been detected by Mr. Nadley.

CONCLUSION

For the reasons sated above, the Court concludes that Plaintiff is entitled to no additional royalties under the 1978 patent license agreement, and hat defendants have failed to establish that they are entitled to any reimbursement of royalties paid to Plaintiff. There being no further issues to decide, this case is dismissed.

It Is So Ordered.

Dated: New York, New York
July 7, 1988

/s/ MARY JOHNSON LOWE
Mary Johnson Lowe
United States District Judge

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

ORDER

MARY JOHNSON LOWE, D.J.

Plaintiff has moved to settle, correct and/or modify the record in the above-captioned action pursuant to Rule 10 of the Federal Rules of Appellate Procedure and for an order pursuant to Local Rule 18(c) that certain discovery information be made part of the record for purposes of plaintiff's appeal to the Court of Appeals.

Pursuant to Fed.R.App.P. 10(e), we hereby confirm that the complete deposition transcripts of Raymond Boyd, Edward Sacks and Dohn Schildkraut, collectively designated

as Joint Trial Exhibit 77, and that Plaintiff's Exhibits 113 are part of the record. Also, copies of the following of plaintiff's patents, which are not subjects of the action but were discussed in an October 5, 1984 conference before this Court, are to be part of the record.

U.S. Patent Numbers:	264,510
	266,028
	4,126,145
	4,269,206
	255,389
	264,387
	282,014
	4,255,826
Canadian Patent Numbers:	47,264
	1,098,882
Dutch Patent Number:	7,802,653
Great Britain Patent Number:	994,713
Belgian Patent Number:	864,784

Furthermore, Plaintiff's Exhibits 121 and 122, which were provided by defendants in answer to interrogatories, are hereby made part of the record pursuant to Local Rule 18(c).

As a final matter, this court held an unrecorded status conference on this matter on July 16, 1984. Fed.R.App.P. provides that if

> no report of the evidence or proceedings at a hearing or trial was made, or if a transcript is unavailable, the appellant may prepare a statement

> of the evidence or proceedings from the best available means, including the appellant's recollection. The statement shall be served on the appellee, who may serve objections or proposed amendments thereto within 10 days after service. Thereupon the statement and any objections or the proposed amendments shall be submitted to the district court for settlement and approval and as settled and approved shall be included by the clerk of the district court in the record on appeal.

After reviewing plaintiff's Statement of Proceedings and defendants Amended Statement of Proceedings regarding the July 16, 1984 status conference, it is the opinion of this Court that defendant's digest of what occurred at that conference is the accurate one. Accordingly, we adopt it and make it part of the record.

The parties are to transmit the above-described documents to the clerk of the Court of Appeals.

It Is So Ordered.

Date: New York, New York
July 15, 1990

/s/ MARY JOHNSON LOWE
MARY JOHNSON LOWE
United States District Judge

ENDORSEMENT

BOYD v. SCHILDKRAUT GIFTWARE CORPORATION AND D&E TRADING CORPORATION

81 CIV. 1896 (MJL)

After review of plaintiff's submissions in support of their motion pursuant to Fed.R.Civ.P. 60(b), this Court grants the plaintiff's request. This Court's order of July 23, 1990, settling the record in this case, is hereby vacated and reentered.

It Is So Ordered.

DATED: New York, New York
September 17, 1990

/s/ MARY JOHNSON LOWE
MARY JOHNSON LOWE
United States District Judge

AGREEMENT made this _____ day of March _____ _____ and between RAYMOND BOYD, residing at _____. _____ Penna _____ (hereinafter referred to as "Boyd") and D&E TRADING CORP., a New York corporation with offices at 720 White Plains Road, Scarsdale, N.Y. 10583 (hereinafter called "D&E").

WITNESSETH:

WHEREAS, Boyd has heretofore invented a lighted compact known as the "Ray-glo compact" ("the Invention"); and

WHEREAS, Boyd has heretofore applied for a United States Patent on the Invention (the "Patent Application") which such Patent Application is presently pending before the United States Patent Office; and

WHEREAS, the parties hereto wish to enter into an agreement pursuant to which Boyd will grant to D&E the exclusive right and license to manufacture and sell the Invention and related items, and to use and exploit any patents which may issue thereon, and any improvements and developments thereof; and

WHEREAS, D&E has agreed, in consideration thereof, to pay Boyd certain royalties on the net receipts derived by D&E from sales of the Invention and related items.

NOW, THEREFORE, in consideration of the covenants herein contained and other good and valuable consideration it is agreed between the parties as follows:

1. Boyd warrants and represents to D&E as follows:

(a) That he is the sole inventor andthe exclusive owner of the Invention; that he has heretofore caused to be filed on his behalf the Patent Application on the Invention

bearing Serial No. 776,593; that the Invention and patent Application do not infringe upon the inventions, patents or rights of other parties; that he has not heretofore granted any rights to or interests in the Invention and/or the Patent Application to any other party; and that he has full right and authority to enter into this agreement and to grant the exclusive rights and license to D&E conferred hereunder.

2. Boyd hereby grants and conveys unto D&E the exclusive right and license to produce, manufacture, distribute, sell, market, use, and otherwise exploit and commercialize the Invention and all patents that may be issued thereon, and all additions, improvements, modifications, extensions and developments thereof, including all other products and items which may hereafter be developed or invented incorporating or using any of the salient features of the Invention or any of the ideas, concepts or claims set forth in the Patent Application, and any amendments thereof, or in any patents that may hereafter be issued pursuant to the Patent Application (hereafter referred to as the "Other Products")

3. Boyd agrees to furnish D&E with all production and manufacturing knowhow and techniques now or hereafter known or available to Boyd, and all technical and other data, documents and information relating to the Invention and Other Products known or available to him, which may be of assistance to D&E in the production and manufacture of the Invention and the Other Products or in the use or exploitation of the ideas, concepts and claims contained in the Patent Application, and any patents that may issue thereon.

4. Boyd agrees promptly to reveal and disclose to D&E any future developments, improvements, extensions, modifications and/or amendments of the Invention and of the ideas, concepts and claims contained in the Patent Application, all

of which are included in the rights granted to D&E hereunder.

5. Boyd agrees that he will not, during the duration of this agreement and any renewals hereof, reveal or disclose to any outside parties the salient features of the Invention or nay of the ideas, concepts, or claims contained in the Patent Application, or any developments, extensions, improvements or additions thereof, or any manufacturing or production knowhow or techniques, and he warrants and represents that he has not heretofore done so (except for disclosure to the Mallory Battery Company).

6. The rights and license granted to D&E hereunder shall be exclusive world-wide rights and license, and shall include the right in D&E to sublicense others to produce, manufacture, use, exploit, sell ad/or distribute the Invention and the Other Products.

7. In consideration of the performance of this agreement by Boyd, D&E agrees to pay Boyd royalties, in the percentages hereinafter set forth, on the net receipts derived by D&E from sales of the Invention and the other Products. The net receipts shall be deemed to be the net sales price actually received by D&E from the accounts to whom it sells the Invention and Other Products less, discounts, credits, returns and allowances.

8. The royalties payable to Boyd by D&E shall be in the following amounts: Seven (7%) percent of the first $1,000,000 of net receipts derived by D&E from the sale of the Invention and the Other Products during the term of this agreement; six (6%) percent of the second $1,000,000 of net receipts derived by D&E; five (5%) percent of the next $1,000,000 of net receipts derived by D&E; and four (4%) percent of all additional net receipts derived by D&E during the term of this agreement.

9. Boyd agrees to use his best efforts to obtain patent protection for the Invention and agrees that he will diligently pursue the processing of the Patent Application heretofore filed, at his sole cost and expense. Boyd further agrees that he will promptly file application for patents on the Invention in Great Britain, France, Italy, Germany, Japan, Canada, Belgium, Holland, Hong Kong, Taiwan and Korea and that he will diligently pursue the processing of such patent applications. Boyd shall pay for one-half of the legal expense of such foreign patent applications and D&E shall pay for one-half of such legal expense. Boyd agrees to reimburse D&E for the portion of the legal expense of said foreign patent applications paid by it, in the event a patent is not granted to Boyd pursuant to the Patent Application. Boyd further agrees to reimburse D&E for the portion of the legal expense of said foreign patent applications paid by it (even though a patent is granted to Boyd) in the event D&E renews this agreement for any additional term, beyond the initial term, as provided in paragraph Number 15 below. In such event, the monies advanced by D&E for the legal expense of said foreign patent applications shall be repaid by Boyd out of the first royalty earned by him from sales of the Invention and Other Products during the first renewal term of this agreement, and said monies may be deducted by D&E from such royalties.

10. Boyd agrees that he will, at his own cost and expense, defend against any claim, action or proceeding which may be made or instituted against D&E, its officers, directors, agents or employees and/or Boyd, or others, arising out of the claimed infringement of the Invention upon the inventions, patents or rights of other parties, and that he will reimburse, indemnify, save and hold harmless D&E, its officers, directors, agents and employees, from and against

all loss, damage, cost or expense, including counsel fees, paid or incurred by reason of any such claimed actions or proceedings.

Boyd further agrees that he will, at his own cost and expense, diligently take such legal action as may be necessary to prevent the infringement by others upon the Invention or upon any of the patents or rights covered by this agreement, and to prosecute the infringers.

11. Boyd shall have the right to assign the royalties covered by this agreement and/or his interest in the Patent application provided that he shall first notify D&E thereof and provided that such assignee shall agree in writing to be bound by all of the terms and provisions of this agreement. It is understood and agreed that any such assignment shall be subject to the rights of D&E hereunder and shall not operate in any way to relieve Boyd of any of his obligations to D&E hereunder, or to limit, modify or affect such obligations. As security for the rights and license granted to D&E hereunder, Boyd agrees to deposit in escrow with Wishod & Fisch, attorneys for D&E, an assignment of his interest in the Patent Application and any patents issued thereunder, and in and to the foreign patent applications and any patents issued thereunder. If Boyd assigns his rights in and to the Patent Application or in and to the foreign patent applications, or any patents issued thereunder, he shall, simultaneously therewith, cause such assignee to deliver to Wishod & Fisch an assignment of such assignee's interest in such applications or patent to D&E. Similarly, if such assignee assigns his interest in and to such applications or patents he shall, simultaneously therewith, cause his assignee to deposit in escrow with Wishod & Fisch an assignment of his interest therein to D&E.

In the event of default by Boyd in the performance of any of the provisions of this agreement, D&E shall have the right to file the assignment of his, or his assigns' interest in such patent applications and patents. Upon the final expiration of this agreement and the performance by Boyd of his obligations to D&E hereunder, the assignments deposited in escrow shall be released from escrow and returned to Boyd or his assigns, or, if the assignment to D&E has been filed, D&E shall reassign its interest in such patent applications and patents.

12. D&E agrees to advance to Boyd, as against the royalties to be earned by him hereunder, the sum of fifth thousand ($50.000) dollars, payable as follows:

(a) $5,000 upon the execution of this agreement.

(b) $5,000 monthly thereafter on the 15th day of each month for nine (9) consecutive months, commencing with April 15, 1978.

(c) D&E has heretofore paid over to Boyd's patent attorneys, Duffield and Lehrer, the sum of $6,000 on account of the legal expenses of processing foreign patent applications on the Invention. One-half of said sum, in the amount of $3,000, represents D&E's share of the initial legal expense for the foreign patent applications. The other $3,000 has been paid out for the account of Boyd, in partial payment of the $5,0000 downpayment referred to in subdivision (a) above. The balance of the $5,000 downpayment on the advance against royalties referred to in Subdivision (a) above, in the amount of $2,000, has been paid by D&E to Boyd simultaneously herewith.

13. Royalties shall be paid to Boyd by D&E monthly during the duration of this agreement. Such payments shall be made by the 15th of each month and shall be based upon the net amounts received by D&E from sales of the Inven-

tion and Other Products during the preceding month. The advances against royalties paid by D&E to Boyd in accordance with the provisions of paragraph 12 above shall be deemed paid and applied towards the first royalties earned by Boyd under this agreement, as such royalties accrue to him. If the advances against royalties paid by D&E to Boyd hereunder exceed the royalties earned by Boyd, the excess shall be repaid to D&E.

14. Boyd represents that he has been advised by his patent attorneys, Duffield & Lehrer, that it is their opinion that a patent will issue from the U.S. Patent Office on one or more of the claims set forth in the Patent Application. Boyd agrees that he will, promptly after the execution of this agreement, furnish D&E with an opinion letter from Duffield & Lehrer to that effect.

15. This agreement shall continue in force and effect for an initial term ending August 31, 1980. D&E shall have the right to renew this agreement for an additional period of three years, up to August 31, 1983, upon the same terms and conditions, provided that D&E shall have paid Boyd at least $100,000 in royalties during the initial term of this agreement. D&E shall automatically be deemed to have exercised its option to renew this agreement for such additional three-year term unless it shall give Boyd written notice of its intention not to renew at least 30 days prior to the expiration of the initial term of this agreement (assuming, of course, that D&E has paid Boyd the required $100,000 in royalties, as aforesaid).

Royalties during the said renewal term shall be at the same rate as during the initial term of this agreement; that it, seven (7%) percent on the first $1,000,000 dollars of net sales receipts derived by D&E during such renewal term, six (6%) percent on the second $1,000,000 of net sales receipts;

five (5%) percent on the third $1,000,000 of net sales receipts, and four (4%) percent on all additional net sales receipts during such renewal term.

16. D&E shall have the further right to renew this agreement after the first renewal term, for additional periods of two years upon the same terms and conditions and at the same royalties, provided that D&E shall have paid Boyd an average of $50,000 a year in royalties during each renewal term of this agreement. D&E shall automatically be deemed to have elected to renew this agreement for such additional two-year periods unless it shall give Boyd written notice of its intention not to renew at least 30 days prior to the expiration of any renewal term (assuming, of course, that the minimum royalties have been paid to Boyd).

17. Boyd shall have the right to audit D&E's books in order to verify the net sales receipts derived by D&E from sales of the Invention and the Other Products, quarter-annually during the duration of this agreement. Such audits shall be conducted at the offices of D&E upon reasonable notice and at reasonable times, as determine by D&E, and in a manner as shall not disrupt or interfere with the business and operations of D&E.

18. Any notice sent pursuant to this agreement shall be deemed sufficient if sent by Registered or Certified Mail addressed to the parties at the following addresses:

A. To Boyd at 2___35 _____ Road, _____ Penna. _____

_____. To D&E Trading Corp. at 720 White Plains Road, Scarsdale, New York 10583

Either party may, at any time or from time to time, change the address to which notices shall be sent by sending written notice thereof to the other party as provided in this paragraph.

19. D&E agrees to manufacture the Invention or to arrange for its manufacture in Hong Kong, or elsewhere at such places as D&E deems appropriate. In the event D&E has the component parts for the Invention sent to the United States for assembly D&E agrees to notice Boyd thereof and to consider allowing Boyd, or a corporation controlled by him, to assemble and ship the Invention for D&E upon such terms and conditions as shall be agreed to by D&E. It is specifically understood and agreed that the provisions of this paragraph shall not in any way obligate D&E to do anything other than to consider a proposal made by Boyd for the assembly and shipment of the Invention and D&E shall have the sole and exclusive right, as it shall in its discretion deem appropriate, to determine how, when, where and by whom the Invention is to be assembled and shipped and the terms and conditions thereof.

19. Any controversy or claim arising out of or relating to this agreement or the breach thereof shall be settled by arbitration in the City of New York in accordance with the rules of the American Arbitration Association and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

D&E TRADING CORP.

BY:_____

_____

RAYMOND BOYD

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

COMPLAINT

JURISDICTION

1. Plaintiff is a citizen of the Commonwealth of Pennsylvania and defendants Schildkraut Giftware Corporation ("Schildkraut"), with offices at 48 West 37th Street, New York, New York and D & E Trading Corporation ("D & E"), with offices at 8 West 36th Street, New York, New York are both New York corporations having their principal places of business in a state other than Pennsylvania. The matter in controversy exceeds, exclusive of interest and costs, the sum of $10,000.

FIRST COUNT:

2. On or about March 8, 1978, plaintiff and defendant D & E entered into an agreement under which D & E agreed to pay plaintiff royalties on D & E's receipts from the sales of a lighted compact referred to by the parties as the "Ray-glo Compact".

3. D & E also agreed to pay plaintiff royalties on receipts from sales of other products which were defined in the agreement as all additions, improvements, modifications, extensions and developments of the Ray-glo Compact, including all other products and items which were developed or invented incorporating or using any of the salient features of the Ray-glo Compact.

4. Plaintiff performed his obligations under said agreement.

5. In or about November, 1979, a dispute arose concerning the manner of computing royalties to be paid to plaintiff under said agreement.

6. To settle such dispute, plaintiff and defendants D & E and Schildkraut entered into a second agreement, dated March 1, 1980, in which the first agreement was expressly terminated.

7. In said second agreement, D & E and Schildkraut agreed to pay plaintiff royalties based on the subject matter of a United States design patent application for a compact design.

8. Plaintiff was induced to enter into the second agreement by defendants' representation that they had not sold or offered for sale or publicly used or displayed the lighted compact prior to September 1, 1978, because, had either defendant performed such acts, it would have prevented the issuance of a valid United States design patent based thereon.

9. On information and belief, defendants, individually or in combination, had either sold or offered for sale or publicly used or displayed the lighted compact so as to prevent a valid patent from issuing on such design patent application.

10. Plaintiff relied on the defendants' representation set forth in paragraph 8 above and, but for such representation, would not have terminated the first agreement.

11. D & E failed to perform its obligations and has breached the first agreement in that it has withheld royalties due plaintiff under the first agreement and has failed properly to account for those royalties and sales receipts.

12. Without an accounting, plaintiff will have insufficient information to establish with particularity the extent to which he has been damaged.

SECOND COUNT:

13. In the event the Court finds that the second agreement is neither void nor voidable and such agreement is in force and effect, in the alternative, plaintiff asserts this Second count.

14-19. Plaintiff realleges paragraphs 2 through 7 of the First Count.

20. D & E and Schildkraut failed to perform the second agreement in that they have withheld royalties due plaintiff under the second agreement and have failed properly to account for those royalties and sales receipts.

21. Plaintiff realleges paragraph 12 of the First Count.

WHEREFORE, plaintiff claims:

1. Damages in such amount as may be found on an accounting to be due; and

2. A judgment declaring the second agreement either void or voidable and that the first agreement has been and is in full force and effect.

JURY DEMAND

Plaintiff hereby demands trial by jury of all issues herein so triable.

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

AMENDED COMPLAINT

JURISDICTION

1. Plaintiff is a citizen of the Commonwealth of Pennsylvania and defendants Schildkraut Giftware Corporation ("Schildkraut"), with offices at 48 West 37th Street, New York, New York and D & E Trading Corporation ("D & E"), with offices at 8 West 36th Street, New York, New York are both New York corporations having their principal places of business in a state other than Pennsylvania. The matter in controversy exceeds, exclusive of interest and costs, the sum of $10,000.

FIRST COUNT:

2. On or about March 8, 1978, plaintiff and defendant D & E Trading Corporation ("D & E") entered into an agreement under with D & E agreed to pay plaintiff royalties on D & E's receipts from the sales of a lighted compact referred to by the parties as the "Ray-glo Compact".

3. D & E also agreed to pay plaintiff royalties on receipts from sales of other products which were defined in the agreement as all additions, improvements, modifications, extensions and developments of the Ray-glo Compact, including all other products and items which were developed or invented incorporating or using any of the salient features of the Ray-glo Compact.

4. Plaintiff performed his obligations under said agreement.

5. In or about November, 1979, a dispute arose concerning the manner of computing royalties to be paid to plaintiff under said agreement.

6. To settle such dispute, plaintiff and defendants D & E and Schildkraut Giftware Corporation ("Schildkraut") entered into a second agreement, dated March 1, 1980, in which the first agreement was expressly terminated.

7. In said second agreement, D & E and Schildkraut agreed to pay plaintiff royalties based on the subject matter of a United States design patent application for a compact design.

8. Plaintiff was induced to enter into the second agreement by defendants' representation that they had not sold or offered for sale or publicly used or displayed the lighted compact prior to September 1, 1978, because, had either defendant performed such acts, it would have preven-

ted the issuance of a valid United States design patent based thereon.

9. On information and belief, defendants, individually or in combination, had either sold or offered for sale or publicly used or displayed the lighted compact so as to prevent a valid patent from issuing on such design patent application.

10. Plaintiff relied on the defendants' representation set forth in paragraph 7 above and, but for such representation, would not have terminated the first agreement.

11. D & E failed to perform its obligations and has breached the first agreement in that it has withheld royalties due plaintiff under the first agreement and has failed properly to account for those royalties and sales receipts.

12. Without an accounting, plaintiff will have insufficient information to establish with particularity the extent to which he has been damaged.

SECOND COUNT:

13. In the event the Court finds that the second agreement is neither void nor voidable and such agreement is in force and effect, in the alternative, plaintiff asserts this Second count.

14-19. Plaintiff realleges paragraphs 2 through 7 of the First Count.

20. D & E and Schildkraut failed to perform the second agreement in that they have withheld royalties due plaintiff under the second agreement and have failed properly to account for those royalties and sales receipts.

21. Plaintiff realleges paragraph 12 of the First Count.

THIRD COUNT:

22. In the event the court finds that the first or second agreement had been terminated as of August, 1980, plaintiff asserts this Third Count.

23-28. Plaintiff realleges paragraphs 2 through 7 of the First Count.

29. As a result of the first agreement, plaintiff disclosed to D & E and Schildkraut, proprietary information, including trade secrets, know-how, ideas and inventions, concerning and relating to folding illuminated mirror cases.

30. After August 1, 1980 and until the present time, D & E and Schildkraut have utilized plaintiff's trade secrets, know-how, ideas or inventions and have sold, and continue to sell, folding illuminated mirror cases embodying plaintiff's trade secrets, know-how, ideas or inventions.

31. The sales and use by D & E and Schildkraut of plaintiff's proprietary information disclosed to D & E and Schildkraut under the first agreement, without payment of royalties and other compensation, unjustly enriches D & E and Schildkraut to plaintiff's detriment.

32. Plaintiff realleges paragraph 12 of the First Count.

WHEREFORE, plaintiff claims:

1. Damages in such amount as may be found on an accounting to be due; and

2. A judgment declaring the second agreement either void or voidable and that the first agreement has been and is in, full force and effect.

JURY DEMAND

Plaintiff hereby demands trial by jury of all issues herein so triable.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

Before:

HON. MARY JOHNSON LOWE,

DISTRICT JUDGE

New York, N.Y.
October 5, 1984 - 10:15 A.M.

Appearances:

Philip M. French, Esq.
1035 Washington Boulevard
Stamford, Connecticut 06901
Attorney for Plaintiff

Jerome Fisch, Esq.
415 Madison Avenue
New York, N. Y. 10017
Attorney for Defendants
and
Bernard Weitzman, Esq., of Counsel

* * *

MR. FRENCH: I am not trying to interpret Judge Werker's decision for you. I am really asking you which we do. If we are talking about reading the description in the patent and comparing it to the compacts, we still have to make a comparison. I mean it either is or it is not reflected in the patent.

And if the claims are narrower claims, then we have to make a comparison not to the application, not to the invention, but rather to the claimed aspect. But we must compare a compact with something, and it appears clear from their contentions that if we are comparing just to the claims, then some of their compacts are not there and some may be.

So it is a qwuestion [*sic*] of what we count for the royalties.

MR. FISCH: That has never been any contention up until just now.

THE COURT: That's what I thought.

MR. FISCH: This is new attorneys coming up with a new theory.

THE COURT: They are clearly covered.

MR. FRENCH: You think they are all covered? If so, we have no problem on the accounting.

* * *

THE COURT: "This will confirm the rulints [*sic*] made by Judge Lowe at the conference held on July 16, 1980.

"1. The 1978 agreement is a patent license agreement which entitled your client to royalties only on the sale of lighted mirror cases which contained the patent device.

"2. The March 1978 agreement expired in August 1980.

"3. The March 1980 agreement is without legal effect.

"4. No claim for unjust enrichment will be allowed.

"5. Your client is guilty of laches by failing to bring infringement lawsuits to protect his mechanical patent after he was notified of the circulation of 'knockoffs'."

* * *

MR. FRENCH: Could I ask you one question now? Would you be willing to certify this case? And I'm not indicating a desire at this time --

THE COURT: I couldn't case less. This case will not go up to the Second Circuit until it is concluded. There is nothing in this case that would make it subject to a certification order, and I hardly find that in good faith you could even ask that when you don't know enough about the case because you haven't been here.

But if that's what you want to do, you do whatever you can do. But I am going to send it to the Magistrate --

MR FRENCH: It was purely for the sake of my analysis and guidance for my client, your Honor, and because it is common to --

THE COURT: Have a good day.

MR. FRENCH: Yes, your Honor.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

PRE-TRIAL HEARING

U.S. Courthouse
Foley Square
New York, New York

April 15, 1985
10:30 o'clock a.m.

Before:

HON. HAROLD J. RABY,

Magistrate, USDC

A P P E A R A N C E S:

Messrs. FELFE & LYNCH
Attorneys for Plaintiff
805 Third Avenue
New York, New York 10022

BY: ALFRED HEMINGWAY, Esq., of Counsel
-and-
PHILIP M. FRENCH, Esq.
51 Bank Street
Stamford, Connecticut 06901

JEROME FISCH, Esq.
Attorney for Defendants
415 Madison Avenue
New York, N. Y. 10017

BY: JEROME FISCH, Esq., of Counsel
BERNARD WEITZMAN, Esq., of Counsel

* * *

MR. FRENCH: . . . If, in fact, non-infringement is being tried here, basically what we are trying, then the plaintiffs must object on the grounds that that is a jury issue.

THE COURT: I stated on the record this is not an infringement case. I am simply saying by coincidence, the issue of infringement is part of the record in this case.

Are you objecting on the ground that you are being deprived of a jury trial?

If that's the case, you can make that point on appeal from my report. You can make it to Judge Lowe. You can bring

a Writ of Mandamus to stop me from proceeding. You can do whatever you like. I have my rules.

MR. FRENCH: I understand that.

* * *

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

PLAINTIFF'S POST-HEARING MEMORANDUM

Philip M. French
51 Bank Street
Stamford, CT 06901

Alfred H. Hemingway, Jr.
805 Third Avenue
New York, N.Y. 10022

Attorneys for Plaintiff

* * *

Infringement issues are entirely outside of the pretrial order in this case. Thus the pretrial order, by its silence, contemplates no infringement issues at trial. The court order precluding issues of claim construction in this proceeding explicitly bars infringement from being considered in this accounting. Finally, plaintiff has demanded a jury trial herein as to all issues so triable, and patent infringement is a classic jury issue replete with subsidiary factual issues. For each and all of the foregoing reasons, plaintiff submits that the subject matter referenced to the court herein could not have included infringement issues.

* * *

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

81 CIV. 1896 HFW

RAYMOND BOYD,

Plaintiff,

-v-

SCHILDKRAUT GIFTWARE CORPORATION
and D & E TRADING CORPORATION,

Defendants.

PLAINTIFF'S OBJECTIONS TO THE REPORT OF HAROLD J. RABY UNITED STATES MAGISTRATE DATED SEPTEMBER 17, 1985

Philip M. French
51 Bank Street
Stamford, CT 06901

Alfred H. Hemingway, Jr.
805 Third Avenue
New York, N.Y. 10022

Attorneys for Plaintiff

* * *

. . . [P]laintiff points out that for compacts literally within the claims of U.S. Patent 4,126,145 and/or to the alternative extent that such compacts fall within the broader patent scope afforded by the doctrine of equivalents, the analysis is identical for both tort and contract theories. Except to the partial extent that defendants have admitted the foregoing, however, these issues were not before the Magistrate because of plaintiff has preserved his demand for a jury trial on them. (See plaintiff's Brief pp. I-22 through I-23).

* * *

Supreme Court, U.S.
FILED
OCT 4 1991
OFFICE OF THE CLERK

No. 91-445

IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

RAYMOND BOYD,

Petitioner,

—v.—

SCHILDKRAUT GIFTWARE CORPORATION and
D&E TRADING CORPORATION,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR RESPONDENTS IN OPPOSITION

MARVIN E. FRANKEL
(Counsel of Record)
TERRY D. WEISSMAN
KRAMER, LEVIN, NESSEN,
KAMIN & FRANKEL
919 Third Avenue
New York, New York 10022
(212) 715-9100

Attorneys for Respondents

QUESTION PRESENTED

Whether the petitioner—having proceeded without objection to a hearing before a magistrate on his patent license royalty claims—was entitled to have a jury hear a subsidiary issue of patent infringement when, almost a year after the referral to the magistrate and midway through the hearing, he requested such a procedure.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

No. 91-445

RAYMOND BOYD,

Petitioner,

—v.—

SCHILDKRAUT GIFTWARE CORPORATION and
D&E TRADING CORPORATION,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR RESPONDENTS IN OPPOSITION

In the respondents' respectful submission, there is no reason for the granting of certiorari in this case.

STATEMENT OF THE CASE

The facts now pertinent may be summarized as follows:

Petitioner brought this action in 1981 to recover royalties under a written patent license relating to a switching mechanism for a light in a mirror case. After numerous motions and the death of the first District Judge (Hon. Henry F. Werker) to whom the case had been assigned, the case was given to a successor Judge (Hon. Mary Johnson Lowe).

On July 16, 1984, Judge Lowe reaffirmed Judge Werker's prior rulings, including a denial of petitioner's motion for summary judgment (JA 540).* In addition, she made a series of decisions narrowing and defining the issues, including a determination, concurring in a prior decision by Judge Werker (JA 452), that any possible claim by petitioner for patent infringement was barred by laches (JA 540-43, 569-571).

In a subsequent conference, on October 5, 1984, the District Court reaffirmed the prior rulings (JA 567-571), and observed that the only problem remaining to be resolved was the amount of royalties, if any, to which petitioner was entitled. The Judge suggested then that this question be referred to a Magistrate for hearing and report (JA 571). Neither side objected, but counsel for petitioner said he "would have to discuss that with [his] client" (JA 571-572). The matter was referred to a Magistrate by an order (JA 646) to which no objection was made at any time, then or thereafter.

The hearing before the Magistrate went forward on the five days from January 23 to January 25, 1985 and from April 15 to April 16, 1985 (JA 729-1437). During the fourth day, counsel for petitioner stated that if the hearing were to produce a ruling on some claim of patent infringement, this would be a "jury issue" (JA 1173). The Magistrate, having stated his mandate under the reference merely to determine license royalties, if any, reiterated that this was "not an infringement case. I am simply saying by coincidence, the issue of infringement is part of the record in this case." (Pet. App. 154a.)

The Magistrate concluded in his report that petitioner was entitled to $76,789 in royalties (Pet. App. 102a-107a). The District Court affirmed all of his rulings except the calculation of royalties, concluding that petitioner had been paid all he was owed and was entitled to nothing more (Pet. App. 114a-128a).

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* "JA" refers to the Joint Appendix in the Court of Appeals.

On appeal, petitioner presented a total of seven questions, assailing a number of substantive and procedural rulings. The fifth issue presented was the one now proposed to this Court—whether petitioner had been "deprived of his claimed right to a trial by jury. . . ." (Appellant's Br. 1.)

The Court of Appeals (Newman, J.) found among "the many issues . . . only one of substance"—a question of marking estoppel not raised now in the petition. Having rejected briefly other "procedural objections", the Court of Appeals said of the problem now proposed for review by this Court (Pet. App. 9a):

> Nor was there a denial of a jury trial by reason of the reference of the royalty computation issues to the Magistrate Judge. When Judge Lowe proposed referring the royalty calculations to a Magistrate Judge, she inquired of Boyd's counsel whether there was objection, and was told only that counsel would have to discuss the matter with his client. No objection was raised until the proceedings before the Magistrate Judge were well along. Even then, Boyd's counsel sought only to claim a jury trial on infringement as an issue purportedly distinct from the obligation to make royalty payments. Since the claim was for royalty payments, it was too late, after the royalty issues had been referred to the Magistrate Judge, to obtain a jury on the subsidiary issue of infringement, on which rested the royalty claim for the wedge switch compacts.

ARGUMENT

This is a clear case for denial of certiorari. There is no conflict and no issue of general importance arising from the unique and peculiar circumstances of this case. And the record is at best too murky and equivocal to present the questions petitioner proposes to reach.

The Magistrate's hearing against which petitioner now protests was ordered without objection in October 1984. The

hearing commenced, again without objection, almost a year later and, as the Court of Appeals noted (Pet. App. 9a), was "well along" before petitioner's counsel offered the hypothetical suggestion (JA 1173) that "[i]f, in fact, non-infringement is being tried here, basically what we are trying, then the plaintiffs must object on the grounds that this is a jury issue." The Court of Appeals correctly disposed of that suggestion when it observed (Pet. App. 9a) that in fact "the claim was for royalty payments," and that the equivocal objection came "too late . . . to obtain a jury on the subsidiary issue of infringement. . . ."

In these odd circumstances, petitioner cannot and does not purport to find the kind of conflict between Circuits or with applicable decisions of this Court that might warrant review on certiorari. Instead, petitioner relies extensively (Pet. 17-22) on asserted conflicts *within* Circuits (both the Second and Third), a condition that would not warrant certiorari even if the claim of intra-Circuit disparities were sound. But the claim is not sound in any event. The series of Second Circuit cases petitioner summarizes (Pet. 18-22) presents no instance of conflict with the narrow and fact-specific disposition of the instant case. If anything, those cases reflect that the Circuit has been and remains sensitively cognizant that the right to jury trial may be waived only by "a knowing and voluntary relinquishment of the right in a doubtful situation." *Heyman v. Kline*, 456 F.2d 123, 129 (2d Cir.) *cert. denied*, 409 U.S. 847 (1972). *See also Royal American Managers, Inc. v. IRC Holding Corp.*, 885 F.2d 1011, 1018-19 (2d Cir. 1989).

There is in sum nothing here to warrant further review by this Court.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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